

# London Borough of Hillingdon

## Statement of Accounts for the year to 31 March 2014



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# London Borough of Hillingdon

## Statement of Accounts for the year ended 31 March 2014

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# 1. Leader's Statement

## Introduction by Councillor Ray Puddifoot, Leader of the Council

Welcome to the London Borough of Hillingdon's Statement of Accounts for 2013/14. These provide a financial view of the Council's delivery of services to residents during the year and details of the Council's financial standing at 31 March 2014.

The Council has continued to protect frontline service to residents during 2013/14 despite managing the dual pressures of a growing population and reductions in government funding. Strong financial management has delivered £17.1 million in savings over the last year, principally through our Business Improvement Delivery (BID) Programme which continues to transform the way the Council delivers key services. This local approach and driving efficiency improvements ensures we continue to offer the full range of frontline services valued by residents.

In addition to protecting services in the face of austerity, the Council continues to invest in the enhancement of key services with 2014 seeing the completion of the refurbishment of all 17 libraries across the borough - an achievement unmatched by any other Council. This investment has resulted in increased usage across our library service, including a 26 per cent rise in footfall at our flagship Uxbridge Library since its reopening in April 2014.

We continue to ensure every child in the borough has a school place as close to their home as possible, with the current programme of school expansions - the largest of its kind in London - set to deliver 6,500 additional places. A total of 1,140 places were provided for the September 2013 primary school intake, and a further 3,675 places delivered for September 2014, ensuring every child has a quality school place.

Investment in local services extends to Hillingdon's roads, with growth of £3 million supporting a borough-wide programme of renewal and enhancement of vital infrastructure. Completion of the programme of investment at Ruislip Lido, including the new Woodland Centre and Cafe, shows our continued commitment to open spaces - with our borough being awarded more Green Flags for parks and open spaces than any other local authority in the country for the second year running.

The Council is able to deliver excellent services for residents because of its sound financial management, with the past year seeing balances reaching £35.9 million to support service delivery in the financially tough years ahead. Our financial resilience is further enhanced by our balance sheet position seen in these accounts, with improved cash balances available to manage unforeseen risks. Council Tax continues to be frozen for all residents into 2014/15, with the freeze on track to be extended into its seventh year in 2015/16, and resources set aside to ensure those over 65 will see no increase in their Council Tax until at least 2018/19.

Alongside the Council's traditional functions, from April 2013 it took on responsibility for promotion of public health within the borough from Hillingdon Primary Care Trust. The same rigorous approach to the financial management of public health is being undertaken by the Council to ensure services to residents in this area are maintained and enhanced.

As ever our values remain our people, our environment and our heritage, putting Hillingdon residents first. Strong financial management will remain vital in continuing to achieve these goals and our strength in this area will enable us to continue delivering good quality, value for money services.

Councillor Ray Puddifoot  
Leader of the Council

## **2. Explanatory Foreword**

This document sets out the annual accounts of the London Borough of Hillingdon for the year ended 31 March 2014. The accounts are in the format for local authority accounts set by the Chartered Institute of Public Finance and Accountancy (CIPFA).

The purpose of this foreword is to provide a guide to the most significant matters reported in the financial statements. Included are a number of technical terms that are specific to local government finance and a glossary has been provided on page 126 to assist the understanding of the financial statements.

### **2.1 Statements within the accounts**

#### **The core accounting statements comprise:**

##### **Comprehensive Income and Expenditure Statement**

This reports the net cost for the year of all functions for which the Council is responsible and demonstrates how that cost has been financed from income from taxpayers and general government grants. The surplus or deficit on this account represents the amount by which income is greater than or less than expenditure.

The statement shows a surplus of £60.3 million (£9.0 million 2012/13) on the provision of services for 2013/14. Of this, £-0.9 million relates to the general fund and £61.2 million relates to the Housing Revenue Account.

There are various items that are accounted for through the Comprehensive Income and Expenditure Statement to comply with statutory accounting requirements such as depreciation, revaluation and impairment losses and losses on disposal; however these items are removed for the purposes of council tax setting. As a result these items of expenditure are reversed out of the General Fund Balance in the Movement on Reserves Statement.

##### **Movement in Reserves Statement**

This statement reconciles the outturn on the Comprehensive Income and Expenditure Statement to the balance on the general fund, established by complying with relevant statutory provisions, showing the true economic cost of providing the councils services. The statement splits the Council's reserves into usable and unusable balances, and shows movement to and from them during the year. Usable reserves are those that can be applied to fund expenditure or reduce local taxation. Unusable reserves are those balances over which the Council has no direct control.

Usable reserves increased in 2013/14 from £99.5 million in 2012/13 to £124.6 million in 2013/14. Within this movement there was an opening balance of £17.2 million of capital grants that were predominantly for application to the Primary Schools Capital Programme in 2013/14. As well as this movement there was an increase of £9.5 million in Usable Capital receipts from the sale of council dwellings through the right to buy scheme where the council has retained receipts to replace the social housing on a 1 for 1 basis. Unusable reserves increased from £396.5 million in 2012/13 to £438.3 million in 2013/14.

To support the Movement in Reserves Statement, Note 1 to the accounts shows the Adjustments between Accounting Basis and Funding Basis under Regulations. This note reverses the items of income and expenditure that are required to be credited or charged to the Comprehensive Income and Expenditure Statement, that do not affect the general fund balance for council tax purposes.

Total adjustments for 2013/14 were £19.1 million within the general fund. This increases the general fund surplus in year to £18.1 million before the council transferred money between reserves.

## **Balance Sheet**

This shows balances and reserves at the Council's disposal at year-end, together with its long-term indebtedness, net current assets employed in its operations and summarised information on non-current assets held. It excludes funds held in trust for others and also excludes the Pension Fund assets and liabilities, which have been accounted for on an IAS19 basis.

The total net worth of the Council in 2013/14 was £562.9 million (£496.0 million 2012/13) largely constituting non-current assets valued at £1,230.2 million, net pension liabilities of £381.9 million and long term borrowing of £323.6 million.

The council maintains reserve balances to meet the cost of unforeseen demands or events and as a result keeps a minimum level of balances. As at 31 March 2014 the Council has £36.6 million General Fund balances and £22.0 million Earmarked Reserves held for specific purposes. Further details can be seen in note 2 to the accounts.

## **Cash Flow Statement**

This summarises all movements in cash and cash equivalents arising from both revenue and capital transactions with third parties. It excludes funds held in trust for others and the Pension Fund.

There was a decrease in cash and cash equivalents in 2013/14 of £23.0 million. This was made up of a decrease in cash held of £5.5 million and a decrease in cashable short term investments of £17.5 million.

## **Supplementary accounting statements comprise:**

### **Housing Revenue Account (HRA) Comprehensive Income and Expenditure Statement**

There is a statutory duty to account separately for Local Authority housing provision. The HRA Income and Expenditure Statement shows in detail the Income and Expenditure on HRA services included in the whole Council Comprehensive Income and Expenditure Statement. It includes the major elements of Council housing revenue expenditure on maintenance, administration, capital financing costs, and major income sources such as rents and other income.

There was a surplus in 2013/14 on HRA services of £61.2 million (£27.9 million 2012/13). This includes a reversal of prior year impairment on Council Dwellings of £37.9 million.

### **Statement of Movement on the Housing Revenue Account Balance**

This shows how the HRA Income and Expenditure Statement surplus or deficit for the year reconciles to the movement on the Housing Revenue Account balance for the year. It shows income and expenditure that is credited or charged to the HRA balance by statute or non-statutory practices so as to reconcile to amounts to be charged to Housing tenants. For example revaluation gains and losses on council dwellings and gains/losses on disposal of asset are reversed.

The overall HRA surplus for the year, after adjustments made in the Statement of Movement on the HRA Balance, was £3.7 million in 2013/14 (£5.7 million 2012/13).

### **Collection Fund Revenue Account**

The Collection Fund is a separate account into which amounts raised from local taxation are paid through council tax and business rates. From this, amounts due to preceptors including the Council itself are paid. The Collection Fund showed a surplus of £2.0 million in 2013/14 for council tax and a deficit of £1.3 million for National Non Distributed Rates (NNDR). Council Tax income for the year was £127.0 million and NNDR income for the year was £336.3 million.

The Council share of the council tax collected through the collection fund is 78% so the Council has recognised income of £1.5 million within the main accounting statements. The Council share of NNDR is 30% therefore a deficit of £0.4 million has been recognised in the main statements.

## **Pension Fund Accounts**

These show contributions to the Council's Pension Fund for employees during the year, together with pensions and other benefits paid from it, movements in investments during the year and the financial position of the Fund at the end of the year. These accounts do not include any liabilities relating to payment of pensions and benefits in future years.

## **This document also includes the following:**

### **Notes to the Accounts**

The notes provide further explanation of figures contained in the core and supplementary accounting statements.

### **Statement of Accounting Policies**

The accounts can be properly appreciated only if the policies that have been followed in dealing with material items are understood. Therefore the Statement of Accounting Policies forms an integral part of these accounts.

### **Annual Governance Statement**

This statement is required under the CIPFA/SOLACE framework 'Delivering Good Governance in Local Government'. This sets out the systems, processes, culture and values by which the Council is directed and controlled, and its activities through which it accounts to, engages with, and leads the community. The framework enables the Council to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate cost-effective services.

### **Glossary of Terms**

The Glossary provides a definition of key terms used to aid understanding the accounting statements.

## **2.2 Financial Performance**

The financial challenges facing the Council as a result of the Government's austerity programme and the wider economic environment continued through 2013/14 and will continue well into the future. Councils are continuing to see central government funding decline; however Hillingdon were able to successfully freeze Hillingdon's share of Council Tax for another year without impacting on front-line service to the public as well as managing significant increases in demand for those services.

This balancing of local demand for services and financial constraints has been successfully managed through the Council's Business Improvement Delivery (BID) Programme. This enabled delivery of the required £17.1 million savings to balance the budget while driving improvement in service quality across the Council.

As well as budgetary constraints 2013/14 has seen significant changes to arrangements for Local Council Tax Support and the retention of a share of Business Rates income raised within Hillingdon which replaced the previous formula grant system with the business rates retention system. Business rates income is now part of the Council's core revenue funding. As such, a share of any growth in business rates income goes towards assisting the Councils overall budget strategy in the context of further government funding reductions and does not represent an additional resource. The new funding system allows Hillingdon to retain 15% growth however it would also bear the cost of 15% reduction in yield.

A number of Public Health responsibilities transferred to Local Authorities from the abolished Primary Care Trust (PCT) on the 1st April 2013. These new responsibilities and duties have been funded by a ring fenced Public Health grant from central government. The Council has shown the provision of this service on the face of the Income and Expenditure Statement as an acquired service. There is no comparative data for the provision of this as a result.

Within the statement of accounts the Council has had to restate the comparator year for accounting policy changes to those published in 2012/13. These adjustments are due to changes in the regulatory environment in which the Council has to prepare its accounts rather than internal policy changes. The first change is in relation to post employee benefits where there has been a change in the definition for costs of pension fund liabilities. The Pension liability has not changed remaining at £373.3 million liability at the end of 2012/13, however the charges to individual services lines and the actuarial gain /loss has been adjusted. The second change was in relation to a new requirement to separate the provision of public health duties on the face of the Income and Expenditure Statement to meet new reporting disclosures as established in the CIPFA Service reporting code of practice. Neither change impacted on the reported worth of the Council as at 31 March 2013. Further details of the restatement changes can be seen on page 35 within this document.

In June 2010 Central Government gave schools across the country the opportunity to become academies. As a result many of the Council schools have converted since. The implications of this are the income and expenditure of the schools is no longer reported by the Council as the academy becomes independent to the operations of the council and the school assets become those of the academy rather than the Council. During 2013/14 two schools became academies and the councils PFI School (Barnhill Community School) was removed from the councils financial assets as it is an academy; as a result £18.2 million of asset disposals have been written out of the Comprehensive Income and Expenditure as loss on disposal attributable to the transfer of these school assets. To date in 2014/15 there are a further three community schools that have transferred to academy status so the assets of these schools will be removed in the 2014/15 Statement of Accounts.

## 2.3 Revenue Budget

The Council's net revenue budget for 2013/14 totalled £212 million, excluding those services such as schools and housing benefit which are funded by specific funding streams. This net budget was supported by a combination of central government grant and locally raised Council Tax.

Throughout the year, monthly budget monitoring reports were reviewed by Cabinet, enabling corrective action to be taken in response to emerging pressures while continuing to deliver on the Council's priorities for residents. This strong financial management, coupled with the ambitious BID Transformation programme, delivered an under spend of £7.045 million against budget at outturn. From this £7.045 million surplus, £1.380 million was transferred to Earmarked reserves to fund the freeze on older people's council tax freeze. There were also some exceptional items reported to management in relation to the Icelandic investment Impairment, due to timing of data released, which were accounted for in the 2012/13 Statement of Accounts. The outturn position for the General Fund revenue budget is set out below:

| <b>General Fund Services</b>            | <b>Budget<br/>£'000</b> | <b>Outturn<br/>£'000</b> | <b>Variance<br/>£'000</b> |
|---|-------------------------|--------------------------|---------------------------|
| Administration & Finance                | 22,847                  | 21,826                   | (1,021)                   |
| Residents Services                      | 67,710                  | 66,863                   | (847)                     |
| Adult Social Care                       | 58,668                  | 58,296                   | (372)                     |
| Children & Young People's Services      | 23,421                  | 23,365                   | (56)                      |
| <b>Net Cost of Services</b>             | <b>172,646</b>          | <b>170,350</b>           | <b>(2,296)</b>            |
| Contingencies & Priority Growth         | 20,699                  | 20,107                   | (592)                     |
| Financing Costs                         | 10,891                  | 8,391                    | (2,500)                   |
| Levies & other corporate budgets        | 7,412                   | 7,412                    | 0                         |
| Exceptional Items                       | 0                       | (1,657)                  | (1,657)                   |
| <b>Total Net Expenditure</b>            | <b>211,648</b>          | <b>204,603</b>           | <b>(7,045)</b>            |
| Budget Requirement                      | (211,648)               | (211,648)                | 0                         |
| <b>General Fund Surplus for 2013/14</b> | <b>0</b>                | <b>(7,045)</b>           | <b>(7,045)</b>            |

*Note: in accordance with local authority accounting practice, income and favourable variances in the table above, and elsewhere in these accounts are shown as bracketed figures.*

Details on how the General fund outturn position for management decision making links through to the Comprehensive Income and Expenditure Statement surplus for the year, in accordance with accounting standards, can be seen in note 26 to the accounts.

Achievement of the surplus in 2013/14 was in part due to an under spend on capital financing costs due to the deferral of borrowing in support of the Primary school expansion, early delivery of savings and a number of posts across directorates being held open.

Prudent management of the Council's finances to date has ensured the organisation is well placed to meet on-going challenges, with sufficient reserves available to meet risks arising into 2014/15 and beyond.

## **Capital Investment**

The Council's programme of capital investment for 2013/14 totalled £91.2 million (£48.9 million in 2012/13) and was funded from a range of sources. These included grants, contributions from revenue resources and proceeds from asset sales and prudential borrowing (details in note 37 to the accounts).

Investment during 2013/14 focused heavily on the Council's major programme of Primary school expansions and refurbishment of the flagship central library in central Uxbridge, which completes the programme of refurbishment for all borough libraries.

## **Treasury Management**

The council takes a very prudent strategy in investing its cash balances to ensure money is invested at a very low level of risk. The strategy for investing funds first considers the security of the deposit, the liquidity of investments and then the return on the investment. The economic environment has continued to be very tight with limited returns available on investments with the bank of England base rate retaining at the historic low of 0.5% since March 2009. The Council sticks strictly to counterparties which have been agreed through the Treasury Management Strategy, which consist of other local authorities, instant access funds as well as institutions with a credit rating A- or above. Investment income returns for the year on internally managed cash yielded 0.48% (0.66% 2012/13), resulting in total investment income this year of £629k.

During the year the Council utilised internal balances and no new borrowing was taken to fund capital expenditure. The Council's loan portfolio has average rate of 3.00%. The portfolio was reduced by £10.3 million with debt that matured naturally leaving a balance at year end of £334.3 million. The total interest paid over the year totalled £10.2 million.

At the start of the financial year there were unpaid investments with Icelandic banks; Heritable (£3.3 million) and Landsbanki (£2.6 million). During the year the administrators of Heritable issued a dividend leaving a balance of £0.9 million outstanding at year end. The Landsbanki winding up board issued an interim dividend, which was followed by the sale of the claim in final settlement of the issue.

## **Looking Ahead**

Looking forward the main challenge the Council faces financially is the development of further revenue savings of £12.8 million in 2014/15 on top of the £17.1 million delivered in 2013/14 and over £70 million in total over the 4 years since 2010/11. This is as a result of the Government's continuing policy to reduce public expenditure. The Council's BID programme continues to drive the delivery of these savings and good progress continues to be made to achieve these savings.

In addition to the funding cuts from Central Government the council has budgeted to deliver a freeze in the Hillingdon element of Council Tax for 2014/15 and 2015/16, with a further five year freeze for the over 65's. As with prior years the Council will continue to deal with potential funding required to cover a range of financial risks faced such as significant demographic and demand led pressures facing the Council.



Amongst these significant financial pressures, the council has developed priority growth proposals within the borough which include allocations to Primary Schools Expansions, extended library openings, sport and activity for all ages, Social Care initiatives, lamp post refurbishment programme, Telecareline and Local Rating Enforcement. In addition to a large proportion of the capital programme being spent to meet growing demand for Primary and Secondary School places across the Borough, the capital programme plans for additional funding for the provision of a new landmark theatre and museum, investment in roads and pavements, as well as investment in three new Youth centres and improvement work associated with other environmental and recreational facilities.

The Council continues to achieve strong growth in the council tax base, with expected growth in council tax revenues in 2014. This is due to a number of properties coming on stream between April 2014 and March 2015, which includes a significant number of properties on key development sites such as St Andrew's Park, Uxbridge. There is however a financial impact of the resulting increase in population to the Council, such as school places and social care implications.

With effect from 1 April 2013, the Business Rate Retention System has resulted in the Council sharing in the benefit of economic development through retention of a proportion of growth in the Business Rates base. While there has been a clear downward trend in rateable value within the Borough since the 2010 revaluation, on-going review of potential developments as part of wider economic development work has identified a number of growth areas, which offer the opportunity to capitalise on this new opportunity.

The Council's medium term financial strategy aims to incorporate these funding strains with minimal impact on the delivery of front line services via transformation of service delivery within council activities. The Council will continue to maintain balances and reserves well in excess of the minimum recommended level. This will provide a significant buffer over the medium term as there is forecast to be significant further cuts in central Government funding from 2015/16 through to 2018/19.

Additional challenges over future years relate to the Better Care Fund which has been announced for introduction in 2015/16 which represents a further risk to the Council to be managed. This will see integrated working between the health and local government sectors. As a result of the major changes to Adult Social Care funding arrangements set out in the 2013 Care Bill, which includes introduction of capped care costs and increased deferred payment arrangements, there will be significant new burdens over social care funding expected in the medium-term. Despite these funding risks, the Council's budget does however still contain significant flexibility, particularly in the level of balances and reserves built up through prudent financial management, which gives the potential to smooth the impact of any funding gap in 2015/16 over the following years.

### 3. Statement of Responsibilities for the Statement of Accounts

#### 1. Council's Responsibilities

The Council is required to:

- Make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this Council that officer is the Corporate Director of Finance;
- Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets; and
- Approve the Statement of Accounts

#### 2. Corporate Director of Finance Responsibilities

The Corporate Director of Finance is responsible for the preparation of the Council's statement of accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 (The Code).

In preparing this statement of accounts the Corporate Director of Finance has:

- Selected suitable accounting policies and then applied them consistently;
- Made judgements and estimates that were reasonable and prudent; and
- Complied with the Local Authority Code.

The Corporate Director of Finance has also:

- Kept proper accounting records that were up to date; and
- Taken reasonable steps for the prevention and detection of fraud and other irregularities.

#### 3. Corporate Director of Finance Approval of Accounts

I certify that these accounts present a true and fair view of the financial position of the London Borough of Hillingdon, in terms of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in Great Britain ('the code of practice'), as at 31 March 2014 and its income and expenditure for the year then ended.

Paul Whaymand  
CORPORATE DIRECTOR OF FINANCE  
29 September 2014

#### **Audit Committee Certificate for the Approval of the Accounts**

I confirm that these accounts were considered and approved by the Audit Committee at the meeting held on 23 September 2014.

Signed on behalf of London Borough of Hillingdon

ACTING CHAIRMAN (AUDIT COMMITTEE)  
23 September 2014

## **4. Independent Auditor's Report to the Members of the London Borough of Hillingdon**

### **Opinion on the Authority financial statements**

We have audited the financial statements of London Borough of Hillingdon for the year ended 31 March 2014 under the Audit Commission Act 1998. The financial statements comprise the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Movement in Reserves Statement, the Cash Flow Statement and the related notes 1 to 47, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement and related notes 1 to 8, and Collection Fund and the related notes 1 to 3. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

This report is made solely to the members of London Borough of Hillingdon in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. Our audit work has been undertaken so that we might state to the Authority those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority, as a body, for our audit work, for this report, or for the opinions we have formed.

### **Respective responsibilities of the Corporate Director of Finance and auditor**

As explained more fully in the Statement of Responsibilities for the Statement of Accounts, the Corporate Director of Finance is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Corporate Director of Finance and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### **Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view of the financial position of the London Borough of Hillingdon as at 31 March 2014 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

### **Opinion on other matters**

In our opinion, the information given in the explanatory foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

## **Matters on which we report by exception**

We report to you if:

- in our opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007;
- we issue a report in the public interest under section 8 of the Audit Commission Act 1998;
- we designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response; or
- we exercise any other special powers of the auditor under the Audit Commission Act 1998.

We have nothing to report in these respects.

## **Opinion on the pension fund financial statements**

We have audited the pension fund financial statements for the year ended 31 March 2014 under the Audit Commission Act 1998. The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

This report is made solely to the members of the London Borough of Hillingdon in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. Our audit work has been undertaken so that we might state to the Authority those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority, as a body, for our audit work, for this report, or for the opinions we have formed.

## **Respective responsibilities of the Corporate Director of Finance and auditor**

As explained more fully in the Statement of Responsibilities for the Statement of Accounts, the Corporate Director of Finance is responsible for the preparation of the Authority's Statement of Accounts, which includes the pension fund financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

## **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Corporate Director of Finance; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the explanatory to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

## **Opinion on financial statements**

In our opinion the pension fund's financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2014 and the amount and disposition of the fund's assets and liabilities as at 31 March 2014, other than liabilities to pay pensions and other benefits after the end of the scheme year; and

- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

### **Opinion on other matters**

In our opinion, the information given in the explanatory foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

### **Conclusion on Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources**

#### **Respective responsibilities of the Authority and the auditor**

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

We are required under Section 5 of the Audit Commission Act 1998 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires us to report to you our conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

#### **Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources**

We have undertaken our audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2013, as to whether the Authority has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for us to consider under the Code of Audit Practice in satisfying myself whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2014.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

### **Conclusion**

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2013, We are satisfied that, in all significant respects, *the London Borough of Hillingdon* put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2014.

**Certificate**

We certify that we have completed the audit of the accounts of the London Borough of Hillingdon in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Heather Bygrave (Engagement lead)  
For and behalf of Deloitte LLP  
Appointed auditor, St Albans, UK  
September 2014

## 5. Statement of Accounting Policies

The Council is required to prepare an annual Statement of Accounts which summarises the Council's transactions for the 2013/14 financial year and its position as at the year-end of 31 March 2014. The Statement of Accounts must be prepared in accordance with proper accounting practices as per the Accounts and Audit Regulations 2011. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 and the Service Reporting Code of Practice 2013/14 (SeRCOP), supported by International Financial Reporting Standards (IFRS).

The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by periodic revaluation of certain categories of non-current assets and financial instruments. The accounts are prepared on an accruals and going concern basis.

### **CAPITAL**

#### **1. Property, Plant and Equipment**

Assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others for administration purposes and that are expected to be used during more than one financial year are classified as Property, Plant and Equipment.

**Recognition:** All expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis in the accounts, provided that the asset yields benefits to the Council for a period of more than one year and the cost of the item can be measured reliably. This excludes expenditure on routine repairs and maintenance of non-current assets that is charged direct to service revenue accounts when incurred.

**Measurement:** Assets are initially measured at cost, comprising:

- The purchase price;
- Any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management; and
- The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located

The Council does not capitalise borrowing costs incurred whilst assets are under construction.

The cost of assets acquired other than by purchase is deemed to be its fair value, unless the acquisition will not increase the cash flows of the Council. In the latter case, the cost of the acquisition is the carrying amount of the asset given up by the Council.

Assets are then carried in the balance sheet valued on the basis recommended by CIPFA and in accordance with the Statements of Asset Valuation Principles and guidance notes issued by the Royal Institution of Chartered Surveyors (RICS). Property, Plant and Equipment are included in the balance sheet on the following basis:

- Infrastructure assets, community assets and assets under construction are included in the balance sheet at depreciated historical cost;
- Dwellings are carried at fair value, determined using the basis of existing use value for social housing;
- All other classes of asset shall be measured at fair value. For land, buildings and assets which are not held for the purpose of generating cash flows, the fair value represents the amount that would be paid for the asset in its existing use. Where there is no market-based evidence of fair value due to the specialised nature of the asset, the asset is valued at its depreciated replacement cost; and

- Plant and machinery forming an integral part of the property is included in the valuation of the buildings. Other plant and machinery has been given a value on the basis of historical costs as a proxy for current value.

Where there is no market-based evidence of fair value because of the specialist nature of an asset, depreciated replacement cost is used as an estimate of fair value.

Assets included in the Balance Sheet at fair value are re-valued sufficiently regularly to ensure that their carrying amount is not materially different from their fair value at the year-end, but as a minimum every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. (Exceptionally, gains might be credited to the Comprehensive Income and Expenditure Statement where they arise from the reversal of a revaluation loss previously charged to a service)

Where decreases in value are identified, the revaluation loss is accounted for as follows:

- Where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains) with any excess written down against the relevant service line in the Comprehensive Income and Expenditure Statement.
- Where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line in the Comprehensive Income and Expenditure Statement.

The Revaluation Reserve contains revaluation gains recognised since 1 April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

A de minimis value of £10,000 has been set for capital purchases. This limit also applies to valuations. De minimis expenditure is charged to revenue but, where permissible and appropriate, it is financed as though it were capital expenditure.

The Council does not own foundation school assets and the value of these assets are not included in the Council's balance sheet.

**Impairment / Revaluation Loss:** An impairment review of all assets is undertaken at the end of each financial year. Losses arising from an impairment or revaluation loss are written off against any revaluation gain attributable to the relevant asset in the Revaluation Reserve, with any excess charged to the relevant service revenue account in the Comprehensive Income and Expenditure Statement.

Where a revaluation loss is reversed subsequently, the reversal is credited to the relevant service line in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

**Depreciation:** Depreciation is provided in the accounts in accordance with the International Accounting Standard (IAS) 16 and CIPFA guidelines. IAS 16 states that depreciation is to be provided on all Plant, Property and Equipment, other than for assets without a determinable finite useful life (i.e. freehold land and certain Community Assets) and assets that are not yet available for use (i.e. assets under construction). The depreciation policy is that:

Depreciation is calculated on a straight line method and is based on the following useful lives or approach:



|  |  |
|--|--|
| Infrastructure                         | 40 years   |
| Vehicles, Plant, Furniture & Equipment | 3 to 30 years  |
| Council Dwellings                      | Depreciated on straight line basis over useful life of 60 years            |
| Other Land & Buildings                 | Useful life varies depending on the condition, type and usage of the asset |
| Surplus Assets                         | Useful life varies depending on the condition, type and usage of the asset |
| IT Equipment                           | 5 years  |
| Intangible Assets                      | 5 years  |

Where an item of Property, Plant and Equipment asset has major components the cost of which are material (20% or £250k) the asset is split into component parts and depreciated separately. Where component parts are identified, the carrying value of the asset is reviewed and an estimate is made on the carrying amount of the component being replaced and this is then written out.

Revaluation gains are also depreciated with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

Depreciation is charged annually and is charged in the year of disposal and not in the year of acquisition. Assets under construction do not incur depreciation until they are complete.

**Disposals:** When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction expected within the following year, rather than through its continuing use, it is reclassified as an Asset Held for Sale. The asset is re-valued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any previously recognised losses. Depreciation is not charged on Assets Held for Sale.

Assets that are to be abandoned or scrapped are not reclassified as Assets Held for Sale.

When an asset is disposed or decommissioned, any loss or profit on disposal is recognised in the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. A proportion of receipts relating to housing disposals (previously 75% for dwellings - now councils can retain the full receipt providing they can spend sufficient level of resources on replacement social housing, 50% for land and other assets, net of statutory deductions and allowances) is payable to the Government. The balance of receipts is required to be credited to the Capital Receipts Reserve, and can then only be used for new capital investment or set aside to reduce the Council's underlying need to borrow (the capital financing requirement). Receipts are appropriated to the Reserve from the General Fund or Housing Revenue Account Balance in the Movement in Reserves Statement.

The written-off value of disposals is not a charge against Council Tax, as the cost of fixed assets is fully provided for under separate arrangements for capital financing. Therefore the loss or profit on sale is appropriated to the Capital Adjustment Account from the General Fund Balance via the Movement in Reserves Statement.

Council houses are sold at a discount in accordance with the legislative requirements. Some land and property may be sold at a discount or at nil value to housing associations in return for nomination rights (i.e. taking tenants from the Council's waiting list); other assets are sold at market value.

Commitments to make stock transfers are valued at estimated tenanted market value at the time the transfer is agreed and an adjustment made to the non-current assets with any loss charged to the HRA Comprehensive Income and Expenditure Statement. An adjustment is made to non-current assets for any change to this valuation at the time of actual disposal.

Deferred credits on the Balance Sheet relate mainly to the sale of Council houses and reflect the amount of mortgage principal outstanding on sales, which will be transferred to capital receipts when paid.

**Grants and contributions:** Where grants and contributions are received that are identifiable to Plant, Property and Equipment with a finite useful life, the amounts are credited to the Comprehensive Income and Expenditure Statement. These are then transferred to the Capital Grants Unapplied Reserve if not used and the Capital Adjustment Account when applied. If the grants have a condition for repayment and remain unapplied at the end of the year, they are held on the Balance Sheet as creditors.

## 2. Heritage Assets

FRS30 Heritage Assets was adopted by the Council in 2011/12 resulting in Mayoral Regalia and the statue 'Anticipation' being brought onto the balance sheet.

Where there is an open market, such assets will be valued at market value; assets with no marketable value will be held at replacement cost.

Where it is impossible to establish a value by either of these methods, the Council will consider other valuation methodologies such as insurable value, otherwise the asset will be held at nil value but disclosed as a note to the accounts.

## 3. Intangible Assets

Expenditure on non-monetary assets that do not have physical substance but are controlled by the Council as a result of past events, such as software licences, are only recognised on the Balance Sheet when they are purchased or where internally developed and the Council can demonstrate:

- The technical feasibility of completing the asset;
- Its intention and the availability of adequate resources to complete the asset;
- Its ability to use or sell the asset;
- How the asset will generate future economic benefits or deliver service benefits; and
- Its ability to measure reliably the expenditure attributable to the intangible asset during its development.

Intangible assets are included at historical cost and only re-valued in line with IAS 38, where the fair value of the assets held by the Council can be determined by reference to an active market. In practice, no intangible asset held by the Council meets this criterion, and they are therefore carried at amortised cost. Intangible assets are amortised over their useful life to the relevant service line in the Comprehensive Income and Expenditure Statement. An asset is tested for impairment whenever there is an indication that the asset might be impaired – any losses recognised are posted to the relevant service line in the Comprehensive Income and Expenditure Statement. Any gain or loss arising on the disposal or abandonment of an intangible asset is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement.

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains and losses are not permitted to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

#### **4. Charges to Revenue for Non-Current Assets**

Service revenue accounts, support services and trading accounts are charged the following amounts to record the real cost of holding fixed assets during the year:

- Depreciation attributable to the assets used by the relevant service;
- Impairment losses on tangible non-current assets used by the service and other losses where there are no accumulated gains in the Revaluation Reserve against which they can be written off; and
- Amortisation of intangible non-current assets attributable to the service

The Council is not required to raise Council Tax to cover depreciation, revaluation and impairment losses or amortisations. However, it is required to make an annual provision from revenue to contribute towards the reduction in its overall borrowing requirement. Depreciation, revaluation and impairment losses and amortisations are therefore replaced by a revenue provision in the General Fund balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

#### **5. Revenue Expenditure Funded from Capital Under Statute**

Revenue Expenditure funded from Capital under statute represents expenditure that may properly be capitalised, but which does not result in the creation of a non-current asset, for example housing association grants, capital expenditure on foundation schools and housing improvement grants. Such expenditure is taken to service revenue in the year in which the expenditure is incurred. Where the Council has determined to meet the cost of this from existing capital resources or by borrowing, a transfer to the Capital Adjustment account reverses the amounts charged to the Comprehensive Income and Expenditure Statement via the Movement in Reserves Statement so there is no impact on the level of Council Tax.

#### **6. Investment Properties**

Investment properties are those that are used solely to earn rentals and/or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or production of goods or is held for sale.

Investment properties are measured initially at cost and subsequently at fair value, based on the amount at which the asset could be exchanged between knowledgeable parties at arm's length. Properties are not depreciated but are re-valued annually according to market conditions at year-end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

#### **7. Leases**

Assets are acquired under finance leases when the risks and rewards relating to the asset transfer to the Council. All other leases are classified as operating leases.

Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification.

Arrangements that do not have a legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets.

### The Council as Lessee

#### Finance Leases

Property, plant and equipment held under finance leases is recognised on the Balance Sheet at the commencement of the lease at its fair value measured at the lease's inception (or present value of the minimum lease payments, if lower). The asset recognised is matched by a liability for the obligation to pay the lessor. Initial direct costs of the Council are added to the carrying amount of the asset. Premiums paid on entry into a lease are applied to writing down the lease liability. Contingent rents are charged as expenses in the years in which they are incurred.

Lease payments are apportioned between:

- A charge for the acquisition of the interest in the property, plant or equipment – applied to write down the lease liability; and
- A finance charge (debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

Property, Plant and Equipment recognised under finance leases is accounted for using the policies applied generally to such assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life.

The Council is not required to raise Council Tax to cover depreciation or revaluation and impairment losses arising on leased assets. Instead, a prudent annual provision is made from revenue towards the deemed capital investment in accordance with statutory requirements. Depreciation and revaluation and impairment losses are therefore replaced by revenue provision in the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

#### Operating Leases

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefitting from use of the leased property, plant or equipment. Charges are made on a straight-line basis over the life of the lease; even if this does not match the pattern of payments (e.g. there is a rent-free period at the commencement of the lease).

### The Council as Lessor

#### Finance Leases

Where the Council grants a finance lease over a property or an item of plant or equipment, the relevant asset is written out of the Balance Sheet as a disposal. At the commencement of the lease, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. A gain, representing the Council's net investment in the lease, is credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal), matched by a lease asset in the Balance Sheet.

Lease rentals receivable are apportioned between:

- A charge for the acquisition of the interest in the property – applied to write down the lease liability (together with any premiums received), and
- Finance income (credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement)

The gain credited to the Comprehensive Income and Expenditure Statement on disposal is not permitted by statute to increase the General Fund Balance and will be required to be treated as a capital receipt. Where a premium has been received, this is posted out of the General Fund Balance to the Capital Receipts Reserve in the Movement in Reserves Statement. Where the amount due in relation to the lease asset is to be settled by the payment of rentals in future financial years, this is posted out of the General Fund Balance to the Unapplied Capital Receipts Reserve in the Movement in Reserves Statement. When the future rentals are paid, the element for the charge for the acquisition of the interest in the property is used to write down the lease asset. At this point, the deferred capital receipts are transferred to the Capital Receipts Reserve.

The written-off value of disposals is not a charge against Council Tax, as the cost of fixed assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

### Operating Leases

Where the Council grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Credits are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a premium paid at the commencement of the lease). Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense over the lease term on the same basis as rental income.

## **REVENUE**

### **8. Accruals of Income and Expenditure**

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:

- Revenue from the sale of goods is recognised when the Council transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.
- Revenue from the provision of services is recognised when the Council can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption; they are carried as inventories on the Balance Sheet.
- Expenses in relation to services received (including those rendered by the Council's officers) are recorded as expenditure when the services are received, rather than when payments are made.
- Interest payable on borrowings and receivable on investments is accounted for on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where there is evidence that debts are unlikely to be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

## 9. Acquisitions and Discontinued Operations

### Acquired operations

The Council has acquired the operation of Public Health in the borough as of 1<sup>st</sup> April 2013, where the function has transferred from the NHS. This expands the Council's role in improving the health of the local population and responsible for commissioning and collaborating on a range of public health services and for advising the commissioners of local NHS services. As a result of this there has been a transfer of public health staff to provide this service and the government has provided additional funding to the Council in the form of a Public Health Grant.

There were no operations acquired in the year to 31 March 2013.

## 10. Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 working hours. Cash equivalents are investments that are held in instant access accounts, readily convertible to known amounts of cash with insignificant risk of change in value. Amounts held in fixed term deposits not accessible within 24 working hours are not classified as cash equivalents, but as short term investments.

In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Council's cash management.

## 11. Changes in Accounting Policies and Estimates and Errors

Changes in accounting policies are only made when required by proper accounting practices when the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Council's financial position or financial performance. Where a change is made, it is applied retrospectively by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change.

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

There have been two changes in accounting policy in 2013/14 which have resulted in a prior period adjustment to the comparator year of the accounting statements. The first accounting policy change is in relation to the adoption of the 2011 amendments to IAS19 in the Code surrounding definitions of post employee benefits. The second change is due to a change in the Service Reporting Code of practice (SeRCOP), which has introduced a new classification of service level expenditure to be defined on the face of the accounts under cost of services; for public health activities. The council has not prepared a third balance sheet for these amendments to the standard, as the Council's Balance position has not retrospectively changed. The changes from the restatement of the accounts are documented in on page 35 to the accounts.

## 12. Employee Benefits

### Benefits Payable During Employment

Short-term employee benefits (those that fall due wholly within 12 months of the year-end), such as wages and salaries, paid annual leave and paid sick leave, flexi leave and non monetary benefits, where material, are recognised as an expense in the year in which employees render service to the Council. An accrual is made against services in the Surplus or Deficit on the Provision of Services for the cost of holiday entitlements and other forms of leave earned by employees but not taken before the year-end and which employees can carry forward into the next financial year. Any accrual made is

required under statute to be reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

### Termination Benefits

Termination benefits are amounts payable as a result of a decision by the Council to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy and are charged on an accruals basis to the Comprehensive Income and Expenditure Account when the Council is demonstrably committed to either terminating the employment of an officer or group of officers or making an offer to encourage voluntary redundancy.

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the pension fund or pensioner in year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pension Reserve to remove the notional debits and credits for termination benefits related to pensions enhancements and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year end.

### Post Employment Benefits

The Council participates in four defined benefit pension schemes-

- The Teachers' Pension Scheme;
- The NHS Pension Scheme;
- The London Borough of Hillingdon Fund of the Local Government Pension Scheme (LGPS), administered locally by the Council; and
- The London Pension Fund Authority Pension Fund of the LGPS, which is a closed arrangement for former employees administered by the London Pension Fund Authority.

The accounts fully conform to the International Accounting Standard 19 (IAS 19) relating to pension fund liabilities. Both the Comprehensive Income and Expenditure Statement and the Balance Sheet reflect the effects of these requirements.

#### *Teachers' Pension Scheme*

- The teachers' scheme is unfunded and administered on behalf of the Department of Education (DfE) by Capita Hartshead. The pension cost charged to the accounts is the contribution rate set by the DfE on the basis of a notional fund. The arrangements for the teachers' scheme mean that the liabilities for the benefits cannot be identified specifically to the Council. As such the scheme is accounted for as if it were a defined contribution scheme and no liability for future payment has been recognised in the Council's Balance Sheet. The Education and Children's Services line in the Council's Comprehensive Income and Expenditure Statement is charged with the employers contributions made into this scheme.

#### *NHS Pensions Scheme*

- The NHS Pension Scheme is unfunded and is administered by NHS Business Services Authority. The arrangements for the NHS schemes mean that liabilities for the benefits cannot ordinarily be identified specifically to the Council. These schemes are therefore accounted for as if they are a defined contribution scheme and no liability for future payments of benefits is recognised in the Balance Sheet. The Public Health Services line in the Comprehensive Income and Expenditure Statement is charged with the employer's contributions payable to the NHS Pension Scheme in the year.

#### *The Local Government Pension Scheme*

- The pension liabilities attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc, and projected earning for current employees.

- Liabilities are discounted to their value at current prices.
- The pension fund assets attributable to the Council is included in the Balance Sheet at fair value:
  - Quoted securities – current bid price
  - Unquoted securities – professional estimate
  - Unlisted securities – current bid price
  - Property – market value
- The change in the net pensions liability is analysed into the following components:
- Service cost comprising:
  - Current service cost – the increase in liabilities as result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked.
  - Past service cost – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – debited to the Surplus/Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs.
  - Net interest on the net defined benefit liability (asset), i.e. net interest expense for the authority - the change during the period in the net defined benefit liability (asset) that arises from the passage of time – debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. This is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability (asset) at the beginning of the period - taking into account any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments.
- Remeasurements comprising:
  - The return on assets – excluding amounts included in net interest on the net defined benefit liability (asset) the annual investment return on the fund assets attributable to the Council, based on an average of the expected long-term return– debited to the Pensions Reserve as other Comprehensive Income and Expenditure.
  - Actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – debited to the Pensions Reserve as Other Comprehensive Income and Expenditure.
- Contributions paid to pension funds – cash paid as employer’s contribution to the pension fund in settlement of liabilities; not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are appropriations to and from the Pension Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at year-end. The negative balance that arises on the Pension Reserve thereby measures the beneficial impact on the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

#### *Discretionary Benefits*

The Council also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff (including teachers) are accrued for in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

### **13. Long Term Contracts**

The Council has entered into a number of long term contracts that have commitments beyond the period of account. These are accounted for on the basis of charging the Surplus or Deficit on the Provision of Services with the value of works and services received under the contract during the financial year. Material future commitments are outlined in a note to the accounts.



## **14. Private Finance Initiative (PFI) Contract**

PFI and similar contracts are agreements to receive services, where responsibility for making available the property, plant and equipment needed to provide the services passes to the PFI contractor. As the Council is deemed to control the services that are provided under its PFI schemes, the Council carries the assets used under the contracts on its Balance Sheet as part of Property, Plant and Equipment.

The original recognition of these assets at fair value (based on the cost to purchase property, plant and equipment) are balanced by the recognition of a liability for amounts due to the scheme operator to pay for the capital investment.

Non current assets recognised on the Balance Sheet are re-valued and depreciated in the same way as property, plant and equipment owned by the Council.

The amounts payable to the PFI operators each year are analysed into five elements:

- Fair value of the services received during the year – debited to the relevant service in the Comprehensive Income and Expenditure Statement.
- Finance cost – an interest charge on the outstanding Balance Sheet liability, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.
- Contingent rent – increases in the amount to be paid for the property arising during the contract, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.
- Payment towards liability – applied to write down the Balance Sheet liability towards the PFI operator (the profile of write-downs is calculated using the same principles as a finance lease)
- Lifecycle replacement costs – proportion of the amounts payable is posted to the Balance Sheet as a prepayment and then recognised as additions to Property, Plant and Equipment when the relevant works are eventually carried out.

## **15. Government Grants and Contributions**

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the Council when there is reasonable assurance that:

- The Council will comply with the conditions attached to the payments, and
- The grants or contributions will be received.

Amounts recognised as due to the Council are not credited to the Comprehensive Income and Expenditure Account until conditions attaching to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset acquired using the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

Monies advanced as grants and contributions where conditions have not been satisfied are carried in the Balance Sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants/contributions) or Taxation and Non-Specific Grant Income (non-ring-fenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance in the Movement in Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grant Unapplied Reserve. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grant Unapplied reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

## 16. Inventories and Work in Progress

Inventories at the year-end are included at the lower of cost or net realisable value. Work in Progress on uncompleted jobs is valued at cost including an allocation of overheads.

## 17. Overheads and Support Services

In line with CIPFA recommended practice and complying with the Service Reporting Code of Practice (SERCOP), support service costs are recharged to front line services. The basis of allocation is as follows:

| <b>Cost</b>  | <b>Basis of Allocation</b> |
|--|----------------------------|
| Central department costs (e.g. Administration and Finance) | Staff numbers              |
| Administrative buildings                                   | Area occupied              |
| Computing and Telephony                                    | Estimated usage            |

Allocations are not made in relation to Corporate and Democratic Core or Non-Distributed costs.

## 18. Corporate and Democratic Core

Corporate and Democratic Core services are identified and accounted for separately. These include democratic representation and management and corporate management. They receive recharges of support costs.

## 19. Non-Distributed Costs

Some costs are not allocated to services and appear under the heading "Non-Distributed Costs" in the Comprehensive Income and Expenditure Statement. These include costs associated with the loss of work or function that cannot be reduced, impairment losses on assets under construction and surplus assets, and revenue costs of holding surplus assets.

## 20. Provisions and Reserves

The Council is required to set aside money to cover future known or anticipated liabilities and each reserve or provision should be clearly identifiable as to its purpose and usage.

### Provisions

Provisions are established for any liabilities of uncertain timing or amount that have been incurred. Provisions are recognised when:-

- There is a present obligation (legal or constructive) as a result of a past event;
- It is probable that a cost will have to be met to settle the obligation; and
- A reliable estimate of the cost can be made.

Provisions are charged to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the Council becomes aware of the obligation, and measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties. When a payment for expenditure against a provision is made, the expenditure is charged directly to that provision. All provisions are reviewed each year.

Where some or all of the payment required to settle a provision is expected to be recovered from another party (e.g. an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received if the Council settles the obligation.

## Provision for bad and doubtful debts

No provision is made for debts that are secured or are with other Public Sector Bodies except in exceptional circumstances. Of all remaining debts, the Council makes a provision for bad debts based upon continuous reviews on likely recovery undertaken by service managers and supporting finance staff.

## Reserves

Amounts set aside for purposes falling outside the definition of provisions or contingent liabilities, required for future policy purposes or to cover contingencies, are treated as reserves. Transfers to and from reserves are distinguished from service expenditure. Expenditure is not charged directly to any reserve.

|                                  |   |
|----------------------------------|---|
| Revaluation Reserve              | Records the accumulated gains on non-current assets held by the Council arising from increases in value. This value is offset by that part of depreciation relating to the revaluation for each asset. Impairments of non-current assets with a previous revaluation gain are written out to the revaluation reserve. This account replaced the Fixed Asset Restatement Account with effect from 1 <sup>st</sup> April 2007. It had a nil balance at 1 <sup>st</sup> April 2007 |
| Capital Adjustment Account       | Accumulates resources that have been set aside to finance capital expenditure offset by the write down of historical cost fixed assets (depreciation and impairments) or written off on disposal. This covers both capital assets and expenditure that is capital by statute (revenue expenditure funded from capital under statute).   |
| Capital Receipts Reserve         | Includes capital receipts that have not yet been used to finance capital expenditure or to repay debt   |
| Capital Grants Unapplied Reserve | Capital grants which are unapplied and do not have a condition to repay the grant, are held in this reserve   |
| Pension Reserve                  | Represents the surplus or deficit arising from the valuation of pension assets and liabilities of Hillingdon's interests in the London Borough of Hillingdon pension scheme and the London Pension Fund Authority pension scheme  |
| Major Repairs Reserve            | A requirement of the HRA resource accounting and holds depreciation charged to the HRA in excess of the major repairs allowance   |

## 21. Contingent Liabilities

A contingent liability arises where an event has taken place that gives the Council a possible obligation the existence of which will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

Contingent liabilities are not recognised in the Balance Sheet but disclosed in a note to the accounts.

## 22. Contingent Assets

A contingent asset arises where an event has taken place that gives the Council a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council.

Contingent assets are not recognised in the Balance Sheet but disclosed in a note to the accounts where it is probable that there will be an inflow of economic benefits or service potential.

## 23. Financial Assets

Financial assets are classified into two types:

- Loans and receivables – assets that have fixed or determinable payments but are not quoted in an active market.
- Available-for-sale assets – assets that have a quoted market price and/or do not have fixed or determinable payments.

### Loans and Receivables

Loans and receivables are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at their fair value. They are then carried at their amortised cost. Annual credits are made to the Comprehensive Income and Expenditure Statement for interest receivable and are based on the carrying amount of the asset multiplied by the effective interest rate applicable to the financial instrument. For most of the loans that the Council has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable plus any accrued interest. The interest receivable for the year in the loan agreement is credited to the Comprehensive Income and Expenditure Statement.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge is made to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate.

Any gains and losses that arise on the de-recognition of an asset are credited/debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

### Available-for-sale Financial Assets

Available-for-sale assets are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Where the asset has fixed or determinable payments, annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the amortised cost of the asset multiplied by the effective interest rate of interest for the instrument. Where there are no fixed or determinable payments, income is credited to the Comprehensive Income and Expenditure Statement when it becomes receivable by the Council.

Assets are maintained in the Balance Sheet at fair value. Values are based on the following principles:

- Instruments with quoted market prices – the market price
- Other instruments with fixed and determinable payments – discounted cash flow analysis
- Equity shares with no quoted market prices – independent appraisal of company valuations.

Changes in fair value are balanced by an entry in the Available for Sale Financial Instruments Reserve and the gain/loss is recognised in the Surplus/Deficit on Revaluation of Available for Sale Financial Assets line in the Comprehensive Income and Expenditure Statement. The exception is where impairment losses have been incurred – these are debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, along with any net gain/loss for the asset accumulated in the Reserve.

Where assets are identified as impaired due to a past event indicating that amounts due under the contract will not be made or fair value falls below cost, the asset is written down and a charge made to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. If the asset has fixed or determinable payments, the impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate. Otherwise, the impairment loss is measured as any shortfall of fair value against the acquisition cost of the instrument (net of any principal repayment and amortisation).

Any gains and losses that arise on the de-recognition of the asset are credited/debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, along with any accumulated gains/losses previously recognised in the Available for Sale Reserve.

Where fair value cannot be measured reliably, the instrument is carried at cost (less any impairment losses).

Financial guarantees entered into before 1 April 2006 are not required to be accounted for as financial instruments. These guarantees are reflected in the Statement of Accounts to the extent that provisions might be required or a contingent liability note is needed under the policies set out in the section on Provisions, Contingent Liabilities and Contingent Assets.

## **24. Financial Liabilities**

Financial liabilities are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and carried at their amortised cost. Annual charges to the Comprehensive Income and Expenditure Statement are made for interest payable and are based upon the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

For most of the borrowings that the Council has, this means the amount presented in the Balance Sheet is the outstanding principal payable plus any accrued interest. The interest payable for the year according to the loan agreement is charged to the Comprehensive Income and Expenditure Statement. However, any stock issued by the Council is carried at a lower amortised cost than the outstanding principal and interest is charged at a marginally higher effective rate of interest than the rate payable to stockholders as a material amount of costs incurred in its issue is being financed over the life of the stock.

Gains and losses on the repurchase or early settlement of borrowing are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement in the year of repurchase/settlement. However, where repurchase has taken place as part of a restructuring of the loan portfolio that involves the modification or exchange of existing instruments, the premium or discount is respectively deducted from or added to the amortised cost of the new or modified loan and the write-down to the Comprehensive Income and Expenditure Statement is spread over the life of the loan by an adjustment to the effective interest rate.

Where premiums and discounts have been charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the General Fund Balance to be spread over future years. The Council has a policy of spreading the gain/loss over the term that was remaining on the loan against which the premium was payable or discount receivable when it was repaid. The reconciliation of amounts charged to the Comprehensive Income and Expenditure Statement to the net charge required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

## 25. Redemption of Debt

The Council sets aside resources each year for the repayment of historical debt. Debt held by the Council is distinguishable into three types of loans:

(a) **Maturity loans** - where the principal is repaid in full on the date the loan matures and interest is paid every 6 months. The accrued interest is shown as part of the carrying value of the loan on the Balance Sheet.

(b) **Equal Instalment of Principal (EIP) Loans** - where an equal instalment of principal based on the life of the loan is repaid every six months. Interest is paid every six months based on the outstanding balance. The accrued interest is shown as part of the carrying value of the loan on the Balance Sheet.

(c) **LOBO (lender's option, borrower's option) loans** - where the principal is borrowed at a fixed rate of interest for a specified period of time, after which the lender has the option to change the rate of interest and the borrower has the option to continue with the loan at the new rate or repay the principal before maturity without penalty. If the lender does not change the rate, the principal is repaid in full on the date the loan matures. In the interim, interest payments are made every six months. The accrued interest is shown as part of the carrying value of the loan on the Balance Sheet.

In addition to the scheduled repayments the Council will also reschedule or redeem debt early as part of the overall management of the portfolio by utilising the Council's ability to repay and/or replace debt based on prevailing market conditions.

## 26. Minimum Revenue Provision

The Council has to make an annual provision for the repayment of borrowing. For all borrowing prior to 1 April 2009 and borrowing that receives support via the Revenue Support Grant the Council applies the Capital Financing Requirement concept based upon figures from the balance sheet (4% of outstanding debt). For other borrowing, the Council makes provision for the repayment of debt over the life of the asset to which the borrowing is applied.

## 27. Collection Fund

Billing authorities in England are required by statute to maintain a separate fund for the collection and distribution of amounts due in respect of council tax and national non-domestic rates (NNDR). The key features relevant to accounting for council tax in the core financial statements are:

- In its capacity as a billing authority the Council acts as agent; it collects and distributes council tax income on behalf of the major preceptors and itself.
- While the council tax income for the year credited to the Collection Fund is the Council's share of accrued income for the year, regulations determine when it should be released from the Collection Fund and transferred to the General Fund of the billing authority or paid out of the Collection Fund to major preceptors.

As the collection of council tax and NNDR Income is in substance an agency arrangement:

- Cash collected by the billing authority from council tax debtors belongs proportionately to the billing authority and the major preceptors. There will therefore be a debtor/creditor position between the billing authority and each major preceptor to be recognised since the net cash paid to each major preceptor in the year will not be its share of the cash collected from council taxpayers; and

## 28. VAT

Income and Expenditure excludes any amounts relating to VAT, as all VAT collected is payable to HM Revenue & Customs. VAT is included in the Income and Expenditure statement whether of a capital or revenue nature only to the extent that it is irrecoverable.

## 29. Events after the Reporting Period

Events after the reporting period are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Two types of events can be identified:

- Those that provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts is adjusted to reflect such events;
- Those that are indicative of conditions that arose after the reporting period – the Statement of Accounts is not adjusted to reflect such events, but where a category of events would have a material effect disclosure is made in the notes of the nature of the events and their estimated financial effect

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

## 30. Exceptional Items and Prior Year Adjustments

Exceptional items are included in the cost of the service to which they relate or on the face of the Income and Expenditure Statement if required to give a fair presentation of the accounts.

Account is taken of material adjustments applicable to prior years arising from changes in accounting policies or from the correction of fundamental errors by restating the comparative figures for the preceding period. The cumulative effect of prior period adjustments is included within the Comprehensive Income and Expenditure Statement for the current period.

## 31. Assumptions Made About Future and Other Major Sources of Estimation Uncertainty

The Statement of Accounts contains estimated figures that are based on assumptions made by the Council about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

The items in the Council's Balance Sheet as at 31 March 2014 for which there is significant risks of material adjustment in the forthcoming financial year are as follows:

| <b>Item</b>                   | <b>Uncertainties</b>   | <b>Effect if Actual Results Differ from Assumptions</b>  |
|-------------------------------|--|--|
| Property, Plant and Equipment | Assets are depreciated over useful lives that are dependent on assumptions about the levels of repairs and maintenance that will be incurred in relation to individual assets.<br><br>Assets are subject to a 5 year rolling valuation and assumptions are made by the specialist valuer regarding | If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets falls. It is estimated that the annual depreciation charge would increase by £1.9m for every year that useful lives had to reduced.<br><br>A fall in value of the Council's assets would impact on the net worth of the council, however would not impact on the |

|                    |  |  |
|--------------------|--|--|
|                    | market indicators and other data available to assess an asset's value.   | Council's usable balances. Fluctuations in the value of assets will not correlate with normal market conditions, however a 1% movement in asset values would move the council's balance sheet position by £12.3m.  |
| Provisions         | Provisions are defined as probable future liabilities based on past events and there are therefore inherent uncertainties related to provisions that have been made and the amounts set aside.   | If future liabilities exceed the amounts set aside, the additional amounts would have to be met from the Council's revenue account.  |
| Arrears            | Provisions have been made for debt owed to the Council for which payment may not be received. The Council reviews its basis for calculating doubtful debts making the current levels appropriate. However, particularly in the current economic climate, it is not certain that allowances made would be sufficient.   | Any deterioration in the collection rates may lead to a larger number of debtors not being able to pay the Council than already provided for. These would have to be written off to reduce the balance of outstanding debt and be charged to the Comprehensive Income and Expenditure Statement. |
| Pensions Liability | Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates, and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Council with expert advice about the assumptions to be applied. | The assumptions interact in complex ways. The actuaries review the assumptions triennially and changes are adjusted for in the accounts. Sensitivity analysis is represented in note 47 to the accounts on page 90.  |

### 32. Carbon Reduction Commitment (CRC)

The Council is required to participate in the Carbon Reduction Commitment (CRC) Energy Efficiency Scheme. This scheme is currently in the last year of its introductory phase which ends on 31 March 2014. The authority is required to purchase and surrender allowances, currently retrospectively, on the basis of emissions i.e. carbon dioxide produced as energy is used. As carbon dioxide is emitted (i.e. as energy is used), a liability and an expense are recognised. The liability will be discharged by surrendering allowances. The liability is measured at the best estimate of the expenditure required to meet the obligation, normally at the current market price of the number of allowances required to meet the liability at the reporting date. The cost to the authority is recognised and reported in the costs of the authority's services and is apportioned to services on the basis of energy consumption.

### 33. Accounting Standards That Have Been Issued but Have Not Yet Been Adopted

The Code of Practice requires that the Authority discloses information relating to the impact of an accounting change that will be required by a new standard that has been issued but not yet adopted. This requirement applies to accounting standards that come into effect for financial years commencing on or before 1 January of the financial year in question (i.e. on or before 1 January 2014 for 2013/14). Disclosure requirements are expected to be included in a subsequent edition of the Code.



The following accounting policy changes are not yet reflected in the councils accounts and are unexpected to have a material impact on the 2013/14 accounts were they to be applied.

- IFRS 13 Fair Value Measurement (May 2011)
- IFRS 10 Consolidated Financial Statements
- IFRS 11 Joint Arrangements
- IFRS 12 Disclosure of Interests in Other Entities
- IAS 27 Separate Financial Statements (as amended in 2011)
- IAS 28 Investments in Associates and Joint Ventures (as amended in 2011)
- IAS 32 Financial Instruments: Presentation.

# Main Financial Statements

The various financial statements that follow are prepared on an accruals basis and follow best practice recommended by the Chartered Institute of Public Finance & Accountancy (CIPFA) and International Financial Reporting Standards (IFRS) as defined by the Code of Practice on Local Authority Accounting in Great Britain. Further details of these requirements are detailed in the Statement of Accounting Policies.

These statements are published in accordance with the Accounts and Audit Regulations 2011. They summarise the overall financial position of the Council and in particular include the following:

## **Comprehensive Income and Expenditure Statement (page 38)**

This statement shows the expenditure and the income relating to all the services provided by the Council and how the net cost of these services has been financed by local taxpayers and government grants.

## **Balance Sheet (page 39)**

This sets out the assets and liabilities of the Council as at 31 March 2014, but excludes the assets and liabilities of pension and trust funds.

## **Movement in Reserves Statement (page 40)**

This statement sets out the reserves held by the Council, split into usable and unusable reserves, and shows how they have moved during the year.

## **Cash Flow Statement (page 42)**

This consolidated statement summarises the inflows and outflows of cash and cash equivalents arising from transactions with third parties for revenue and capital purposes. The statement excludes any transactions of the pension and trust funds.

# Prior period Adjustments, Changes in Accounting Policies and Estimates

Prior period adjustments have been made to the Councils 2012/13 published financial statements in relation to the following:

## **IAS19 Change to Accounting Standard**

There have been several significant changes in relation to the international reporting standard IAS19 Employee Benefits. This has resulted in changes to accounting treatment for financial years starting on or after 1 January 2013. There is no impact on the Balance sheet however.

The main changes are as follows:

### **Expected Return on Assets**

This is in relation to the return on Pension Scheme assets such as those held by the London Borough of Hillingdon Local Government Pension Fund. Advance credit for anticipated outperformance of return seeking assets (such as equities) is no longer permitted by IAS19. This has been replaced with an equivalent figure calculated using a discount rate (as opposed to using a figure calculated using expected return on assets assumptions).

### **Asset Disclosures**

IAS19 requires a much more detailed breakdown of the pension fund assets. The values of the assets, broken down into different classes that distinguish between the nature and risk now need to be disclosed. A further breakdown is also needed showing those assets which have a quoted market price and those which do not. The disclosure included in the Council's 2012/13 published financial statements only showed the main categories of equities, bonds, property and cash as required. As a result of the change some of these categories are split further.

### **Disclosure Presentation**

In order to be consistent with the new requirements of IAS19 the disclosures in relation to the Council's defined benefit pension scheme have changed from those published in 2012/13. By making these changes to the accounting standard, it is intended that the presentation of the information is easier for the user to understand (see note 46).

## **Public Health**

From April 2013, local authorities were provided with a ring-fenced public health grant to discharge the new public health responsibilities being transferred to them from primary care trusts. CIPFA, working with the Department of Health, has added a new Service Expenditure Analysis level – Public Health – which explains how spend on those responsibilities, funded by a grant from the Department of Health, and any additional spend on those responsibilities, should be recorded. As a result the functions the Council carried out in 2012/13 have been separated from their previous service reporting heading and are now shown on the Comprehensive Income and Expenditure statement as Public Health service provision.

# Prior period Adjustments, Changes in Accounting Policies and Estimates

## RESTATEMENT OF COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

|  | 2012/13 Net<br>Expenditure<br>£000's | IAS19<br>Restatement<br>£000's | Public Health<br>Restatement<br>£000's | Restated<br>2012/13 Net<br>Expenditure |
|--|--------------------------------------|--------------------------------|--|--|
| <b>EXPENDITURE ON SERVICES</b>                                       |                                      |                                |  |  |
| Central Services to the Public                                       | 5,165                                | 0                              | (477)                                  | 4,688                                  |
| Culture and Related Services   | 16,058                               | 0                              | (235)                                  | 15,823                                 |
| Environmental and Regulatory   | 24,696                               | 0                              | (538)                                  | 24,158                                 |
| Planning Services  | 1,913                                | 0                              | 0                                      | 1,913                                  |
| Education and Children's Services                                    | 55,851                               | 0                              | (534)                                  | 55,317                                 |
| Highways and Transport Services                                      | 19,260                               | 0                              | (164)                                  | 19,096                                 |
| Local Authority Housing (HRA)  | (32,878)                             | 0                              | 0                                      | (32,878)                               |
| Other Housing Services   | 13,472                               | 0                              | 0                                      | 13,472                                 |
| Adult Social Care  | 71,443                               | 0                              | (1,227)                                | 70,216                                 |
| Public Health  |                                      | 0                              | 3,175                                  | 3,175                                  |
| Corporate and Democratic Core  | 7,429                                | 0                              | 0                                      | 7,429                                  |
| Non-Distributed Costs  | (7,206)                              | 4                              | 0                                      | (7,202)                                |
| <b>COST OF SERVICES</b>  | <b>175,203</b>                       | <b>4</b>                       | <b>0</b>                               | <b>175,207</b>                         |
| Other Operating Expenditure  | 2,191                                | 0                              | 0                                      | 2,191                                  |
| Net loss on disposal of fixed asset                                  | 34,746                               | 0                              | 0                                      | 34,746                                 |
| Net Financing and Investment<br>Income and Expenditure               | 18,465                               | 4,516                          | 0                                      | 22,981                                 |
| Taxation and Non-Specific Grant<br>Income                            | (244,116)                            | 0                              | 0                                      | (244,116)                              |
| <b>Corporate Amount</b>  | <b>(188,714)</b>                     | <b>4,516</b>                   | <b>0</b>                               | <b>(184,198)</b>                       |
| <b>(SURPLUS)/DEFICIT ON<br/>PROVISION OF SERVICES</b>                | <b>(13,511)</b>                      | <b>4,520</b>                   | <b>0</b>                               | <b>(8,991)</b>                         |
| (Surplus)/Deficit on revaluation of<br>Property, Plant and Equipment | (5,182)                              | 0                              | 0                                      | (5,182)                                |
| Actuarial loss on pension assets and<br>liabilities                  | 58,859                               | (4,520)                        | 0                                      | 54,339                                 |
| (Surplus) on revaluation of available<br>for sale financial assets   | (5)                                  | 0                              | 0                                      | (5)                                    |
| <b>TOTAL COMPREHENSIVE INCOME<br/>AND EXPENDITURE</b>                | <b>40,161</b>                        | <b>0</b>                       | <b>0</b>                               | <b>40,161</b>                          |

# Prior period Adjustments, Changes in Accounting Policies and Estimates

## OTHER STATEMENT CHANGES FOR REVISED IAS19 STANDARD FOR 2012/13

### Movement in Reserves Statement

|  | Published 2012/13           |                    |                         | 2012/13 Restated            |                    |                         |
|--|-----------------------------|--------------------|-------------------------|-----------------------------|--------------------|-------------------------|
|  | General Fund Balance £000's | HRA Balance £000's | Pensions Reserve £000's | General Fund Balance £000's | HRA Balance £000's | Pensions Reserve £000's |
| Opening Balance                                      | 23,720                      | 13,412             | (313,199)               | 23,720                      | 13,412             | (313,199)               |
| Surplus on provision of services                     | 13,511                      | 0                  | 0                       | (18,957)                    | 27,948             | 0                       |
| Other Comprehensive Income and Expenditure           | 0                           | 0                  | (58,859)                | 0                           | 0                  | (54,339)                |
| Adjustments between accounting basis & funding basis | (169)                       | 5,677              | (1,204)                 | 32,014                      | (21,986)           | (5,724)                 |
| Transfers to/from reserves                           | (4,295)                     | 0                  | 0                       | (4,010)                     | (285)              | 0                       |
| Total reserve Balances                               | <b>32,767</b>               | <b>19,089</b>      | <b>(373,262)</b>        | <b>32,767</b>               | <b>19,089</b>      | <b>(373,262)</b>        |

NB: Surplus on provision of services has also been split between General Fund and HRA balances within the restatement from that published in 2012/13

### Note 1. Adjustments between accounting basis and funding basis under regulations

|  | Published 2012/13           |                    |                        | Restated 2012/13            |                    |                        |
|--|-----------------------------|--------------------|------------------------|-----------------------------|--------------------|------------------------|
|  | General Fund Balance £000's | HRA Balance £000's | Pension Reserve £000's | General Fund Balance £000's | HRA Balance £000's | Pension Reserve £000's |
| Amount by which pension costs calculated in accordance with the Code are different from the contributions due under the pension scheme regulations | (22,410)                    | 0                  | 22,410                 | (26,926)                    | 0                  | 26,926                 |
| Employer's contributions payable to the pension fund and retirement benefits payable direct to pensioners  | 21,206                      | 0                  | (21,206)               | 21,000                      | 202                | (21,202)               |
| All other note 1 Items not restated  | 1,373                       | (5,677)            | 0                      | (26,088)                    | 21,784             | 0                      |
| Total Adjustments between accounting basis & funding basis   | <b>169</b>                  | <b>(5,677)</b>     | <b>1,204</b>           | <b>(32,014)</b>             | <b>21,986</b>      | <b>5,724</b>           |

### Cash Flow Statement

|   | Published 2012/13 £000's | Restated 2012/13 £000's |
|---|--------------------------|-------------------------|
| Net (surplus)/deficit on the provision of services  | (13,511)                 | (8,991)                 |
| Adjust net surplus on the provision of services for non cash movements                                      | (55,928)                 | (62,371)                |
| Adjust for items in the net deficit on the provision of services that are investing or financing activities | 33,023                   | 34,946                  |
| Net cash flows from operating activities  | (36,416)                 | (36,416)                |
| Net cash flows from investing activities  | 656                      | 656                     |
| Net cash flows from financing activities  | 17,967                   | 17,967                  |
| (Increase) in cash and cash equivalents   | <b>(17,793)</b>          | <b>(17,793)</b>         |
| Cash and cash equivalents at the beginning of the reporting period  | (54,179)                 | (54,179)                |
| Cash and cash equivalents at the end of the reporting period  | <b>(71,972)</b>          | <b>(71,972)</b>         |

# Comprehensive Income and Expenditure Statement

This statement shows the economic cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. Councils raise taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement.

| Note                           | 31 March 2014  |                  |                  | 31 March 2013 Restated |                  |                  |                  |
|--------------------------------|--|------------------|------------------|------------------------|------------------|------------------|------------------|
|                                | Expenditure  | Income           | Net              | Expenditure            | Income           | Net              |                  |
|                                | £000's   | £000's           | £000's           | £000's                 | £000's           | £000's           |                  |
| <b>EXPENDITURE ON SERVICES</b> |  |                  |                  |                        |                  |                  |                  |
|                                | 9,585  | (3,898)          | 5,687            | 30,037                 | (25,349)         | 4,688            |                  |
|                                | 24,264   | (3,178)          | 21,086           | 18,951                 | (3,128)          | 15,823           |                  |
|                                | 37,373   | (8,754)          | 28,619           | 32,498                 | (8,340)          | 24,158           |                  |
|                                | 5,324  | (4,328)          | 996              | 5,602                  | (3,689)          | 1,913            |                  |
|                                | 244,551  | (179,572)        | 64,979           | 238,763                | (183,446)        | 55,317           |                  |
|                                | 30,564   | (9,104)          | 21,460           | 28,137                 | (9,041)          | 19,096           |                  |
|                                | (2,001)  | (61,289)         | (63,290)         | 28,050                 | (60,928)         | (32,878)         |                  |
|                                | 171,430  | (156,172)        | 15,258           | 166,894                | (153,422)        | 13,472           |                  |
|                                | 86,954   | (18,877)         | 68,077           | 90,605                 | (20,389)         | 70,216           |                  |
|                                | 3,528  | 0                | 3,528            | 3,500                  | (325)            | 3,175            |                  |
|                                | 8,399  | (702)            | 7,697            | 8,237                  | (808)            | 7,429            |                  |
|                                | 4,138  | (3,786)          | 352              | (6,670)                | (532)            | (7,202)          |                  |
|                                | <b>Total Cost of Services from existing operations</b>                   |                  |                  |                        |                  |                  |                  |
|                                | 624,109  | (449,660)        | <b>174,449</b>   | 644,604                | (469,397)        | <b>175,207</b>   |                  |
|                                | 9,804  | (15,622)         | (5,818)          | 0                      | 0                | 0                |                  |
|                                | <b>633,913</b>   | <b>(465,282)</b> | <b>168,631</b>   | <b>644,604</b>         | <b>(469,397)</b> | <b>175,207</b>   |                  |
| 3                              | Other Operating Expenditure  | 1,591            | 0                | 1,591                  | 2,191            | 0                | 2,191            |
|                                | Net loss on disposal of fixed asset *                                    | 11,791           | 0                | 11,791                 | 34,746           | 0                | 34,746           |
| 4                              | Net Financing and Investment Income and Expenditure                      | 27,842           | (1,131)          | 26,711                 | 26,195           | (3,214)          | 22,981           |
| 5                              | Taxation and Non-Specific Grant Income                                   | 0                | (269,003)        | (269,003)              | 0                | (244,116)        | (244,116)        |
|                                | <b>Corporate Amount (SURPLUS)/DEFICIT ON PROVISION OF SERVICES</b>       | <b>41,224</b>    | <b>(270,134)</b> | <b>(228,910)</b>       | <b>63,132</b>    | <b>(247,330)</b> | <b>(184,198)</b> |
|                                | <b>675,137</b>   | <b>(735,416)</b> | <b>(60,279)</b>  | <b>707,736</b>         | <b>(716,727)</b> | <b>(8,991)</b>   |                  |
|                                | Deficit/(surplus) on revaluation of Property, Plant and Equipment assets |                  | 1,288            |                        |                  | (5,182)          |                  |
| 46/47                          | Actuarial (gain)/loss on pension assets and liabilities                  |                  | (7,969)          |                        |                  | 54,339           |                  |
| 22                             | Deficit/(surplus) on revaluation of available for sale financial assets  |                  | 15               |                        |                  | (5)              |                  |
|                                | <b>TOTAL COMPREHENSIVE INCOME AND EXPENDITURE</b>                        |                  | <b>(66,945)</b>  |                        |                  | <b>40,161</b>    |                  |

\* Loss on disposal on fixed assets: The net loss on disposal of fixed assets is mainly attributable to the transfer of community schools to academy status.

# Balance Sheet

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Council. The net assets of the Council (assets less liabilities) are matched by the reserves held.

Reserves are reported in two categories:

The first category of reserves are usable reserves, i.e. those reserves that the Council may use to provide services, subject to the need to maintain a prudent level of reserves and requirement to maintain any statutory limitations on their use (for example the Capital Receipts Reserve may only be used to fund capital expenditure or repay debt).

The second category of reserves are those that the Council is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses (for example the Revaluation Reserve), where amounts would only become available to provide services if the assets were sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line 'Adjustments between accounting basis and funding basis under regulations'.

|  |      | 31 March 2014    | 31 March 2013    |
|--|------|------------------|------------------|
|  | Note | £000's           | £000's           |
| Property, Plant & Equipment                                | 6    | 1,215,961        | 1,163,437        |
| Heritage Assets  | 19   | 501              | 501              |
| Intangible Assets  | 10   | 509              | 570              |
| Investment Properties                                      | 9    | 5,717            | 5,806            |
| Long Term Investments                                      | 11   | 7,093            | 1,732            |
| Long Term Debtors  | 14   | 383              | 405              |
| <b>LONG TERM ASSETS</b>                                    |      | <b>1,230,164</b> | <b>1,172,451</b> |
| Inventories  | 12   | 345              | 255              |
| Short Term Debtors   | 13   | 28,230           | 22,930           |
| Short Term Investments                                     | 11   | 55,101           | 33,293           |
| Cash and Cash Equivalents                                  | 17   | 48,954           | 71,972           |
| Assets held for sale                                       | 18   | 1,911            | 11,539           |
| <b>CURRENT ASSETS</b>                                      |      | <b>134,541</b>   | <b>139,989</b>   |
| Short Term Provisions                                      | 20   | (3,640)          | (2,231)          |
| Short Term Borrowing                                       | 11   | (10,705)         | (11,791)         |
| Short Term Creditors                                       | 15   | (62,388)         | (69,698)         |
| <b>CURRENT LIABILITIES</b>                                 |      | <b>(76,733)</b>  | <b>(83,720)</b>  |
| Long Term Provisions                                       | 20   | (3,985)          | (5,149)          |
| Deferred Credits   |      | (81)             | (87)             |
| Long Term Borrowing  | 11   | (323,643)        | (332,895)        |
| Long Term Creditors  | 16   | (2,898)          | (3,897)          |
| Capital Grant Receipts in Advance                          | 36   | (10,292)         | (14,980)         |
| Deferred Liabilities                                       | 38   | (2,211)          | (2,473)          |
| Net Liabilities Related to Defined Benefit Pension Schemes | 46   | (381,940)        | (373,262)        |
| <b>LONG TERM LIABILITIES</b>                               |      | <b>(725,050)</b> | <b>(732,743)</b> |
| <b>NET ASSETS</b>  |      | <b>562,922</b>   | <b>495,977</b>   |
| Usable Reserves  | 21   | 124,581          | 99,502           |
| Unusable Reserves  | 22   | 438,341          | 396,475          |
| <b>TOTAL RESERVES</b>                                      |      | <b>562,922</b>   | <b>495,977</b>   |

**Paul Whaymand**  
**Corporate Director of Finance**  
**29 September 2014**

# Movement in Reserves Statement

This statement shows movement in the year on different reserves held by the authority, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other reserves. The Surplus or (Deficit) on the Provision of Services line shows the true economic cost of providing the authority's services, details of which are shown in the Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the General Fund Balance and the Housing Revenue Account for council tax setting and dwellings rent setting purposes. The Net Increase/Decrease before Transfers to Earmarked Reserves line shows the statutory General Fund Balance and Housing Revenue Account Balance before any discretionary transfers to or from earmarked reserves are undertaken by the Council.

| Notes  | General Fund Balance £000's | Schools Reserves £000's | Earmarked Reserves £000's | Housing Revenue Account £000's | Major Repairs Reserve £000's | Capital Grants Unapplied Reserve £000's | Capital Receipts Reserve £000's | Total Usable Reserves £000's | Revaluation reserve £000's | Capital Adjustment Account £000's | Financial Instruments Adjustment Account £000's | Pensions Reserve £000's | Collection Fund Adjustment Account £000's | Accumulated Absences Account £000's | Available for Sale Financial Instruments £000's | Total Unusable Reserves £000's | Total Council Reserves £000's |
|--|-----------------------------|-------------------------|---------------------------|--------------------------------|------------------------------|---|---------------------------------|------------------------------|----------------------------|-----------------------------------|---|-------------------------|---|-------------------------------------|---|--------------------------------|-------------------------------|
|  |                             |                         |                           |                                |                              |   |                                 |                              |                            |                                   |   |                         |   |                                     |   |                                |                               |
| <b>Balance at 31 March 2013 Restated</b>                               | 32,767                      | 14,950                  | 11,134                    | 19,089                         | 1,123                        | 17,156                                  | 3,283                           | 99,502                       | 59,624                     | 713,540                           | (367)   | (373,262)               | 2,853                                     | (5,959)                             | 46  | 396,475                        | 495,977                       |
| Surplus on provision of services                                       | (955)                       | 0                       | 0                         | 61,234                         | 0                            | 0                                       | 0                               | 60,279                       | 0                          | 0                                 | 0   | 0                       | 0   | 0                                   | 0   | 0                              | 60,279                        |
| Other Comprehensive Income and Expenditure                             | 0                           | 0                       | 0                         | 0                              | 0                            | 0                                       | 0                               | 0                            | (1,288)                    | 0                                 | 0   | 7,969                   | 0   | 0                                   | (15)  | 6,666                          | 6,666                         |
| Total Comprehensive Income and Expenditure                             | (955)                       | 0                       | 0                         | 61,234                         | 0                            | 0                                       | 0                               | 60,279                       | (1,288)                    | 0                                 | 0   | 7,969                   | 0   | 0                                   | (15)  | 6,666                          | 66,945                        |
| Adjustments between accounting basis & funding basis under regulations | 19,061                      | 0                       | 0                         | (53,422)                       | 5,506                        | (15,829)                                | 9,484                           | (35,200)                     | 0                          | 50,071                            | 12  | (16,647)                | 1,167                                     | 597                                 | 0   | 35,200                         | 0                             |
| Net increase/(decrease) before transfers to Earmarked Reserves         | 18,106                      | 0                       | 0                         | 7,812                          | 5,506                        | (15,829)                                | 9,484                           | 25,079                       | (1,288)                    | 50,071                            | 12  | (8,678)                 | 1,167                                     | 597                                 | (15)  | 41,866                         | 66,945                        |
| Transfers (from)/to Earmarked Reserves                                 | (14,304)                    | 2,719                   | 10,916                    | (4,081)                        | 4,750                        | 0                                       | 0                               | 0                            | (1,955)                    | 1,955                             | 0   | 0                       | 0   | 0                                   | 0   | 0                              | 0                             |
| Increase/(Decrease) in Year  | 3,802                       | 2,719                   | 10,916                    | 3,731                          | 10,256                       | (15,829)                                | 9,484                           | 25,079                       | (3,243)                    | 52,026                            | 12  | (8,678)                 | 1,167                                     | 597                                 | (15)  | 41,866                         | 66,945                        |
| <b>Balance at 31 March 2014</b>  | <b>36,569</b>               | <b>17,669</b>           | <b>22,050</b>             | <b>22,820</b>                  | <b>11,379</b>                | <b>1,327</b>                            | <b>12,767</b>                   | <b>124,581</b>               | <b>56,381</b>              | <b>765,566</b>                    | <b>(355)</b>                                    | <b>(381,940)</b>        | <b>4,020</b>                              | <b>(5,362)</b>                      | <b>31</b>                                       | <b>438,341</b>                 | <b>562,922</b>                |



# Movement in Reserves Statement

This statement shows movement in the year on different reserves held by the authority, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other reserves. The Surplus or (Deficit) on the Provision of Services line shows the true economic cost of providing the authority's services, details of which are shown in the Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the General Fund Balance and the Housing Revenue Account for council tax setting and dwellings rent setting purposes. The Net Increase /Decrease before Transfers to Earmarked Reserves line shows the statutory General Fund Balance and Housing Revenue Account Balance before any discretionary transfers to or from earmarked reserves are undertaken by the Council.

| Notes | General Fund Balance £000's |                    |                         |                       | Housing Revenue Account |                |                          |                         | Capital Grants        |                   |                            | Capital Receipts Reserve                 |                  |                            | Total Usable Reserves £000's | Revaluation reserve £000's | Capital Adjustment Account £000's        |                  | Financial Instruments Adjustment Account £000's |                              | Pensions Reserve £000's                  |                   | Collection Fund Adjustment Account £000's |  | Accumulated Absences Account £000's |  | Available for Sale Financial Instruments £000's |  | Unusable Reserves £000's |  | Total Council Reserves £000's |  |
|-------|-----------------------------|--------------------|-------------------------|-----------------------|-------------------------|----------------|--------------------------|-------------------------|-----------------------|-------------------|----------------------------|--|------------------|----------------------------|------------------------------|----------------------------|--|------------------|---|------------------------------|--|-------------------|---|--|-------------------------------------|--|---|--|--------------------------|--|-------------------------------|--|
|       | Schools Reserves            | Earmarked Reserves | Housing Revenue Account | Major Repairs Reserve | Unapplied Reserve       | Capital Grants | Capital Receipts Reserve | Housing Revenue Account | Major Repairs Reserve | Unapplied Reserve | Capital Adjustment Account | Financial Instruments Adjustment Account | Pensions Reserve | Capital Adjustment Account |                              |                            | Financial Instruments Adjustment Account | Pensions Reserve | Collection Fund Adjustment Account              | Accumulated Absences Account | Available for Sale Financial Instruments | Unusable Reserves | Total Council Reserves                    |  |                                     |  |   |  |                          |  |                               |  |
|       | 23,720                      | 16,332             | 5,457                   | 13,412                | 0                       | 14,898         | 0                        | 14,898                  | 0                     | 0                 | 0                          | 73,819                                   | 57,458           | 723,483                    | (379)                        | (313,199)                  | 2,112                                    | (7,197)          | 41  | 462,319                      | 536,138                                  |                   |   |  |                                     |  |   |  |                          |  |                               |  |
|       | (18,957)                    | 0                  | 0                       | 27,948                | 0                       | 0              | 0                        | 0                       | 0                     | 0                 | 0                          | 8,991                                    |                  |                            |                              |                            |  |                  |   | 0                            | 8,991                                    |                   |   |  |                                     |  |   |  |                          |  |                               |  |
|       | 0                           | 0                  | 0                       | 0                     | 0                       | 0              | 0                        | 0                       | 0                     | 0                 | 0                          | 0  | 5,182            |                            | (54,339)                     |                            |  | 5                | (49,152)  | (49,152)                     |  |                   |   |  |                                     |  |   |  |                          |  |                               |  |
|       | (18,957)                    | 0                  | 0                       | 27,948                | 0                       | 0              | 0                        | 0                       | 0                     | 0                 | 0                          | 8,991                                    | 5,182            | 0                          | 0                            | (54,339)                   | 0  | 0                | 5   | (49,152)                     | (40,161)                                 |                   |   |  |                                     |  |   |  |                          |  |                               |  |
|       | 32,014                      | 0                  | 0                       | (21,986)              | 1,123                   | 2,258          | 3,283                    | 16,692                  | (12,959)              | 12                | (5,724)                    | 741                                      | 1,238            |                            |                              |                            |  |                  |   | (16,692)                     | 0  |                   |   |  |                                     |  |   |  |                          |  |                               |  |
|       | 13,057                      | 0                  | 0                       | 5,962                 | 1,123                   | 2,258          | 3,283                    | 25,683                  | (12,959)              | 12                | (60,063)                   | 741                                      | 1,238            |                            |                              |                            |  |                  |   | (65,844)                     | (40,161)                                 |                   |   |  |                                     |  |   |  |                          |  |                               |  |
|       | (4,010)                     | (1,382)            | 5,677                   | (285)                 | 0                       | 0              | 0                        | 0                       | (3,016)               | 3,016             |                            | 0  |                  |                            |                              |                            |  |                  |   | 0                            | 0  |                   |   |  |                                     |  |   |  |                          |  |                               |  |
|       | 9,047                       | (1,382)            | 5,677                   | 5,677                 | 1,123                   | 2,258          | 3,283                    | 25,683                  | (9,943)               | 12                | (60,063)                   | 741                                      | 1,238            |                            |                              |                            |  |                  |   | (65,844)                     | (40,161)                                 |                   |   |  |                                     |  |   |  |                          |  |                               |  |
|       | 32,767                      | 14,950             | 11,134                  | 19,089                | 1,123                   | 17,156         | 3,283                    | 99,502                  | 59,624                | (367)             | (373,262)                  | 2,853                                    | (5,959)          |                            |                              |                            |  |                  |   | 396,475                      | 495,977                                  |                   |   |  |                                     |  |   |  |                          |  |                               |  |

**Balance at 31 March 2013 Restated**

# Cash Flow Statement

The Cash Flow Statement shows the changes in cash and cash equivalents of the authority during the reporting period. The statement shows how the authority generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the authority are funded by way of taxation and grant income or from the recipients of services provided by the authority. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the authority's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the Council.

|  | Note | 2013/14<br>£000's | 2012/13<br>£000's |
|--|------|-------------------|-------------------|
| <b>Net (surplus)/deficit on the provision of services</b>  | 23   | (60,279)          | (8,991)           |
| <b>Adjust net surplus on the provision of services for non cash movements</b>                                      | 23   | (51,169)          | (62,371)          |
| <b>Adjust for items in the net deficit on the provision of services that are investing or financing activities</b> | 23   | 56,609            | 34,946            |
| <b>Net cash flows from operating activities</b>  | 23   | (54,839)          | (36,416)          |
| <b>Net cash flows from investing activities</b>  | 24   | 52,894            | 656               |
| <b>Net cash flows from financing activities</b>  | 25   | 24,963            | 17,967            |
| <b>Decrease/(Increase) in cash and cash equivalents</b>  |      | <b>23,018</b>     | <b>(17,793)</b>   |
| <b>Cash and cash equivalents at the beginning of the reporting period</b>  |      | <b>(71,972)</b>   | <b>(54,179)</b>   |
| <b>Cash and cash equivalents at the end of the reporting period</b>  |      | <b>(48,954)</b>   | <b>(71,972)</b>   |

# Notes to Main Financial Statements

## 1. ADJUSTMENTS BETWEEN ACCOUNTING BASIS AND FUNDING

This note details the adjustments that are made to the total Comprehensive Income and Expenditure recognised by the Council in the year in accordance with proper accounting practice to the resources that are specified by statutory provisions as being available to the Council to meet future capital and revenue expenditure.

| 2013/14   | General Fund Balance<br>£000's | Housing Revenue Account<br>£000's | MRR<br>£000's  | Capital Grants Unapplied Reserve<br>£000's | Capital Receipts Reserve<br>£000's | Usable Reserves<br>£000's | Capital Adjustment Account<br>£000's | Financial Instruments Adjustment Account<br>£000's | Pensions Reserve<br>£000's | Collection Fund Adjustment Account<br>£000's | Accumulated Absences Account<br>£000's | Unusable Reserves<br>£000's |
|---|--------------------------------|-----------------------------------|----------------|--|------------------------------------|---------------------------|--------------------------------------|--|----------------------------|--|--|-----------------------------|
| Amortisation of intangible assets   | (332)                          |                                   |                |  |                                    | (332)                     | 332                                  |  |                            |  |  | 332                         |
| Depreciation and impairment of non current assets   | (32,746)                       | 37,946                            | (9,492)        |  |                                    | (4,292)                   | 4,292                                |  |                            |  |  | 4,292                       |
| Statutory provision for the financing of capital investment   | 4,701                          | 9,854                             |                |  |                                    | 14,555                    | (14,555)                             |  |                            |  |  | (14,555)                    |
| Revenue expenditure funded from capital under statute   | (11,298)                       |                                   |                |  |                                    | (11,298)                  | 11,298                               |  |                            |  |  | 11,298                      |
| Capital grants and contributions applied  | 51,568                         | 103                               |                | 15,829                                     |                                    | 67,500                    | (67,500)                             |  |                            |  |  | (67,500)                    |
| Capital expenditure charged in year to the General Fund balance   | 1,999                          |                                   | 3,986          |  |                                    | 5,985                     | (5,985)                              |  |                            |  |  | (5,985)                     |
| Use of Capital Receipts Reserve to finance new capital expenditure  |                                |                                   |                |  | 8,922                              | 8,922                     | (8,922)                              |  |                            |  |  | (8,922)                     |
| Amounts written off on disposal of non current assets   | (17,364)                       | 5,580                             |                |  | (19,359)                           | (31,143)                  | 31,143                               |  |                            |  |  | 31,143                      |
| Finance Lease Principal   | 263                            |                                   |                |  |                                    | 263                       | (263)                                |  |                            |  |  | (263)                       |
| Gain/Loss Investment Property   | (89)                           |                                   |                |  |                                    | (89)                      | 89                                   |  |                            |  |  | 89                          |
| Other Income  |                                |                                   |                |  |                                    | 0                         |                                      |  |                            |  |  | 0                           |
| Transfer from capital receipts reserve to meet payments to the housing capital receipts pool  | (953)                          |                                   |                |  | 953                                | 0                         |                                      |  |                            |  |  | 0                           |
| Premiums and discounts  | (23)                           | 35                                |                |  |                                    | 12                        |                                      | (12)   |                            |  |  | (12)                        |
| Amount by which pension costs calculated in accordance with the Code are different from the contributions due under the pension scheme regulations  | (41,325)                       | (96)                              |                |  |                                    | (41,421)                  |                                      |  | 41,421                     |  |  | 41,421                      |
| Employer's contributions payable to the pension fund and retirement benefits payable direct to pensioners   | 24,774                         |                                   |                |  |                                    | 24,774                    |                                      |  | (24,774)                   |  |  | (24,774)                    |
| Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements                | 1,167                          |                                   |                |  |                                    | 1,167                     |                                      |  |                            | (1,167)                                      |  | (1,167)                     |
| Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements | 597                            |                                   |                |  |                                    | 597                       |                                      |  |                            |  | (597)                                  | (597)                       |
| <b>Total Adjustments</b>  | <b>(19,061)</b>                | <b>53,422</b>                     | <b>(5,506)</b> | <b>15,829</b>                              | <b>(9,484)</b>                     | <b>35,200</b>             | <b>(50,071)</b>                      | <b>(12)</b>  | <b>16,647</b>              | <b>(1,167)</b>                               | <b>(597)</b>                           | <b>(35,200)</b>             |

# Notes to Main Financial Statements

## 1. ADJUSTMENTS BETWEEN ACCOUNTING BASIS AND FUNDING BASIS

This note details the adjustments that are made to the total Comprehensive Income and Expenditure recognised by the Authority in the year in accordance with proper accounting practice to the resources that are specified by statutory provisions as being available to the Council to meet future capital and revenue expenditure.

| 2012/13 (Restated)  | General Fund Balance<br>£000's | Housing Revenue Account<br>£000's | MRR<br>£000's  | Capital Grants Unapplied Reserve<br>£000's | Capital Receipts Reserve<br>£000's | Usable Reserves<br>£000's | Capital Adjustment Account<br>£000's | Financial Instruments Adjustment Account<br>£000's | Pensions Reserve<br>£000's | Collection Fund Adjustment Account<br>£000's | Accumulated Absences Account<br>£000's | Unusable Reserves<br>£000's |
|---|--------------------------------|-----------------------------------|----------------|--|------------------------------------|---------------------------|--------------------------------------|--|----------------------------|--|--|-----------------------------|
| Amortisation of intangible assets   | (279)                          |                                   |                |  |                                    | (279)                     | 279                                  |  |                            |  |  | 279                         |
| Depreciation and impairment of non current assets   | (19,570)                       | 11,813                            | (1,123)        |  |                                    | (8,880)                   | 8,880                                |  |                            |  |  | 8,880                       |
| Statutory provision for the financing of capital investment   | 5,068                          | 6,752                             |                |  |                                    | 11,820                    | (11,820)                             |  |                            |  |  | (11,820)                    |
| Revenue expenditure funded from capital under statute   | (6,785)                        |                                   |                |  |                                    | (6,785)                   | 6,785                                |  |                            |  |  | 6,785                       |
| Capital grants and contributions applied  | 28,903                         | 120                               |                | (2,258)                                    |                                    | 26,765                    | (26,765)                             |  |                            |  |  | (26,765)                    |
| Capital expenditure charged in year to the General Fund balance   | 2,694                          |                                   |                |  |                                    | 2,694                     | (2,694)                              |  |                            |  |  | (2,694)                     |
| Use of Capital Receipts Reserve to finance new capital expenditure  |                                |                                   |                |  | 7,457                              | 7,457                     | (7,457)                              |  |                            |  |  | (7,457)                     |
| Amounts written off on disposal of non current assets   | (37,801)                       | 3,055                             |                |  | (12,304)                           | (47,050)                  | 47,050                               |  |                            |  |  | 47,050                      |
| Finance Lease Principal   | 388                            |                                   |                |  |                                    | 388                       | (388)                                |  |                            |  |  | (388)                       |
| Gain/Loss Investment Property   | 206                            |                                   |                |  |                                    | 206                       | (206)                                |  |                            |  |  | (206)                       |
| Other Income  | 705                            |                                   |                |  |                                    | 705                       | (705)                                |  |                            |  |  | (705)                       |
| Transfer from capital receipts reserve to meet payments to the housing capital receipts pool  | (1,564)                        |                                   |                |  | 1,564                              | 0                         |                                      |  |                            |  |  | 0                           |
| Premiums and discounts  | (32)                           | 44                                |                |  |                                    | 12                        |                                      | (12)   |                            |  |  | (12)                        |
| Amount by which pension costs calculated in accordance with the Code are different from the contributions due under the pension scheme regulations  | (26,926)                       |                                   |                |  |                                    | (26,926)                  |                                      |  | 26,926                     |  |  | 26,926                      |
| Employer's contributions payable to the pension fund and retirement benefits payable direct to pensioners   | 21,000                         | 202                               |                |  |                                    | 21,202                    |                                      |  | (21,202)                   |  |  | (21,202)                    |
| Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements                | 741                            |                                   |                |  |                                    | 741                       |                                      |  |                            | (741)  |  | (741)                       |
| Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements | 1,238                          |                                   |                |  |                                    | 1,238                     |                                      |  |                            |  | (1,238)                                | (1,238)                     |
| <b>Total Adjustments</b>  | <b>(32,014)</b>                | <b>21,986</b>                     | <b>(1,123)</b> | <b>(2,258)</b>                             | <b>(3,283)</b>                     | <b>(16,692)</b>           | <b>12,959</b>                        | <b>(12)</b>  | <b>5,724</b>               | <b>(741)</b>                                 | <b>(1,238)</b>                         | <b>16,692</b>               |

# Notes to Main Financial Statements

## 2. EARMARKED RESERVE TRANSFERS

|   | 31 March<br>2014<br>£000's | Transfers<br>Out<br>2013/14<br>£000's | Transfers<br>In<br>2013/14<br>£000's | 31 March<br>2013<br>£000's | Restated<br>Transfers<br>Out<br>2012/13<br>£000's | Restated<br>Transfers<br>In<br>2012/13<br>£000's | 31 March<br>2012<br>£000's |
|---|----------------------------|---------------------------------------|--------------------------------------|----------------------------|---|--|----------------------------|
| <b>Earmarked Reserves:</b>                                    |                            |                                       |                                      |                            |   |  |                            |
| Grants Unapplied  | 6,487                      | (640)                                 | 4,261                                | 2,866                      | (203)   | 2,189  | 880                        |
| Member Initiatives  | 8,317                      | (2,175)                               | 8,359                                | 2,133                      | (1,452)   | 2,065  | 1,520                      |
| Other Reserves  | 5,457                      | (2,028)                               | 2,698                                | 4,787                      | (451)   | 3,323  | 1,915                      |
| Public Health Reserve   | 1,284                      | (1,720)                               | 3,004                                | 0                          | 0   | 0  | 0                          |
| Parking Revenue Account / New<br>Roads & Street Works Reserve | 459                        | (174)                                 | 0                                    | 633                        | (79)  |  | 712                        |
| HRA - Earmarked Reserve                                       | 46                         | (669)                                 | 0                                    | 715                        | (384)   | 669  | 430                        |
| <b>Total Earmarked Reserves</b>                               | <b>22,050</b>              | <b>(7,406)</b>                        | <b>18,322</b>                        | <b>11,134</b>              | <b>(2,569)</b>                                    | <b>8,246</b>                                     | <b>5,457</b>               |

### Specific Reserves

**Grants Unapplied** - Funds set aside from specific revenue grants to support future investment in services, which will be drawn down as required to support on-going projects. Balances at 31 March 2014 include monies in respect of the Education Services Grant, Troubled Families Grant and Local Waste Collection Grant alongside a range of other smaller sums.

**Member Initiatives** - Funds set aside to support delivery of specific local initiatives, including the freeze on Council Tax for over 65s, Hillingdon Improvement Programme and Leader's Initiatives amongst other balances. These monies are expected to be drawn down over the life of these initiatives.

**Other Reserves** - Funds set aside to manage cyclical or irregular expenditure, including the Corporate Insurance Reserve, Elections Reserve and provision for costs of service transformation amongst other balances. Funds will be drawn down as required to fund specific costs.

**Public Health Reserve** - A new reserve required under statute to earmark any accounting under spend on Public Health activities transferred into the Council from the National Health Service from 1 April 2013. Monies set aside include funds to meet outstanding commitments from 2013/14 and manage any risks associated with the new service.

**Parking Revenue Account / New Roads & Street Works Reserve** - A statutory reserve earmarking monies primarily raised from on-street parking operations to support related investment in local infrastructure, further details on these operations are set out in note 28.

**HRA Earmarked Reserve** - Monies specifically earmarked for projects within the Housing Revenue Account.

# Notes to Main Financial Statements

## 3. OTHER OPERATING EXPENDITURE

|  | 2013/14<br>£000's | 2012/13<br>£000's |
|--|-------------------|-------------------|
| Payments to Government Housing Capital Receipts Pool | 953               | 1,564             |
| Precepts and Levies                                  | 638               | 627               |
| <b>Total</b>   | <b>1,591</b>      | <b>2,191</b>      |

## 4. NET FINANCING AND INVESTMENT INCOME AND EXPENDITURE

|  | 2013/14<br>£000's | 2012/13<br>£000's |
|--|-------------------|-------------------|
| Interest payable and similar charges               | 11,153            | 11,525            |
| Interest receivable                                | (1,124)           | (2,302)           |
| Net interest on the net defined benefit liability  | 16,600            | 14,670            |
| Changes in the fair value of investment properties | 89                | (206)             |
| Other income                                       | (7)               | (706)             |
| <b>Total</b>                                       | <b>26,711</b>     | <b>22,981</b>     |

## 5. TAXATION AND NON-SPECIFIC GRANT INCOME

|   | 2013/14<br>£000's | 2012/13<br>£000's |
|---|-------------------|-------------------|
| Council tax income                                      | (99,355)          | (113,629)         |
| Non domestic rates Income                               | (99,010)          | (79,004)          |
| Non-Domestic Rates Tariff payable to Central Government | 58,027            | 0                 |
| Non-Domestic Rates Levy payable to Central Government   | 113               | 0                 |
| Non-ringfenced government grants                        | (77,106)          | (28,883)          |
| Capital grants & contributions                          | (51,672)          | (22,600)          |
| <b>Total</b>  | <b>(269,003)</b>  | <b>(244,116)</b>  |

# Notes to Main Financial Statements

## 6. MOVEMENT OF PROPERTY, PLANT & EQUIPMENT 2013/14

|  | Council Dwellings<br>£000's | Other Land & Buildings<br>£000's | Vehicles, Plant & Equipment<br>£000's | Infrastructure Assets<br>£000's | Community Assets<br>£000's | Assets Under Construction<br>£000's | Surplus Assets<br>£000's | Total Plant, Property & Equipment<br>£000's |
|--|-----------------------------|----------------------------------|---------------------------------------|---------------------------------|----------------------------|-------------------------------------|--------------------------|---|
| Cost or Valuation as at 1 April 2013   | 523,000                     | 484,776                          | 57,886                                | 227,033                         | 9,973                      | 9,770                               | 10,863                   | 1,323,301                                   |
| Additions  | 1,839                       | 38,432                           | 17,684                                | 10,223                          | 47                         | 11,039                              | 155                      | 79,419                                      |
| Revaluation (decreases)/increases recognised in Revaluation Reserve                          | 0                           | (1,927)                          | 0                                     | 0                               | 0                          | 0                                   | (181)                    | (2,108)                                     |
| Revaluation (decreases)/increases recognised in Surplus/Deficit on the Provision of Services | 37,946                      | (14,106)                         | 0                                     | 0                               | (8)                        | 0                                   | (25)                     | 23,807                                      |
| Derecognition - Disposals  | (5,530)                     | (23,283)                         | (111)                                 | 0                               | (22)                       | (643)                               | 0                        | (29,589)                                    |
| Derecognition - Other  | (40)                        | (302)                            | (29,808)                              | 0                               | 0                          | 0                                   | (227)                    | (30,377)                                    |
| Assets reclassified within Property Plant and Equipment                                      | 0                           | (5,912)                          | 9                                     | 0                               | 4,564                      | 1,412                               | (73)                     | 0   |
| Assets reclassified (to) & from Held for Sale & Investment Properties                        | 0                           | 0                                | 0                                     | 0                               | 0                          | (831)                               | 3,637                    | 2,806                                       |
| Other Movements in Cost Valuation  | 0                           | 0                                | 0                                     | 0                               | 0                          | 0                                   | 0                        | 0   |
| <b>Cost of Valuation as at 31 March 2014</b>   | <b>557,215</b>              | <b>477,678</b>                   | <b>45,660</b>                         | <b>237,256</b>                  | <b>14,554</b>              | <b>20,747</b>                       | <b>14,149</b>            | <b>1,367,259</b>                            |
| Accumulated Depreciation & Impairment at 1 April 2013  | (17,118)                    | (23,809)                         | (37,220)                              | (81,467)                        | 0                          | 0                                   | (250)                    | (159,864)                                   |
| Depreciation charge for 2013/14  | (8,875)                     | (13,491)                         | (2,936)                               | (5,632)                         | 0                          | 0                                   | (180)                    | (31,114)                                    |
| Depreciation written out to Revaluation Reserve  | 0                           | 779                              | 0                                     | 0                               | 0                          | 0                                   | 26                       | 805   |
| Depreciation written out to Surplus/Deficit on Services                                      | 0                           | 3,006                            | 0                                     | 0                               | 0                          | 0                                   | 9                        | 3,015                                       |
| Derecognition - Disposals  | 269                         | 4,993                            | 57                                    | 0                               | 0                          | 0                                   | 0                        | 5,319                                       |
| Derecognition - Other  | 40                          | 302                              | 29,808                                | 0                               | 0                          | 0                                   | 227                      | 30,377                                      |
| Other Movements in Depreciation & Impairment   | 0                           | 430                              | 30                                    | 0                               | (460)                      | 0                                   | 164                      | 164   |
| Accumulated Depreciation & Impairment at 31 March 2014                                       | (25,684)                    | (27,790)                         | (10,261)                              | (87,099)                        | (460)                      | 0                                   | (4)                      | (151,298)                                   |
| <b>Balance Sheet amount 1 April 2013</b>   | <b>505,882</b>              | <b>460,967</b>                   | <b>20,666</b>                         | <b>145,566</b>                  | <b>9,973</b>               | <b>9,770</b>                        | <b>10,613</b>            | <b>1,163,437</b>                            |
| <b>Balance Sheet amount 31 March 2014</b>  | <b>531,531</b>              | <b>449,888</b>                   | <b>35,399</b>                         | <b>150,157</b>                  | <b>14,094</b>              | <b>20,747</b>                       | <b>14,145</b>            | <b>1,215,961</b>                            |
| <b>Nature of asset holding</b>   |                             |                                  |                                       |                                 |                            |                                     |                          |   |
| Owned  | 531,531                     | 449,888                          | 35,100                                | 150,157                         | 14,094                     | 20,747                              | 14,145                   | 1,215,662                                   |
| Finance Lease  | 0                           | 0                                | 299                                   | 0                               | 0                          | 0                                   | 0                        | 299   |
| PFI  | 0                           | 0                                | 0                                     | 0                               | 0                          | 0                                   | 0                        | 0   |
| <b>Balance Sheet amount 31 March 2014</b>  | <b>531,531</b>              | <b>449,888</b>                   | <b>35,399</b>                         | <b>150,157</b>                  | <b>14,094</b>              | <b>20,747</b>                       | <b>14,145</b>            | <b>1,215,961</b>                            |

NB: Of the £24.3m written out for disposals, £18.2m relates to community schools converting to academy status.



# Notes to Main Financial Statements

## 6. MOVEMENT OF PROPERTY, PLANT & EQUIPMENT 2012/13

|  | Council Dwellings<br>£000's | Other Land & Buildings<br>£000's | Vehicles, Plant & Equipment<br>£000's | Infrastructure Assets<br>£000's | Community Assets<br>£000's | Assets Under Construction<br>£000's | Surplus Assets<br>£000's | Total Plant, Property & Equipment<br>£000's |
|--|-----------------------------|----------------------------------|---------------------------------------|---------------------------------|----------------------------|-------------------------------------|--------------------------|---|
| Cost or Valuation as at 1 April 2012   | 503,752                     | 505,969                          | 52,502                                | 222,855                         | 10,253                     | 12,432                              | 10,675                   | 1,318,438                                   |
| Additions  | 1,614                       | 22,999                           | 8,096                                 | 4,178                           | 391                        | 4,634                               | 3                        | 41,915                                      |
| Donations  | 0                           | 0                                | 0                                     | 0                               | 0                          | 0                                   | 0                        | 0   |
| Revaluation (decreases)/increases recognised in Revaluation Reserve                          | 0                           | 3,343                            | 0                                     | 0                               | 0                          | 0                                   | 200                      | 3,543                                       |
| Revaluation (decreases)/increases recognised in Surplus/Deficit on the Provision of Services | 11,909                      | (1,522)                          | 0                                     | 0                               | (51)                       | 0                                   | 0                        | 10,336                                      |
| Derecognition - Disposals  | (2,630)                     | (42,311)                         | (3,877)                               | 0                               | (620)                      | (319)                               | 0                        | (49,137)                                    |
| Derecognition - Other  | 8,355                       | (3,691)                          | 1,165                                 | 0                               | (447)                      | (5,646)                             | 437                      | 0   |
| Assets reclassified (to) & from Held for Sale & Investment                                   | 0                           | 93                               | 0                                     | 0                               | 0                          | (1,331)                             | (447)                    | (1,685)                                     |
| Other Movements in Cost Valuation  | 0                           | (104)                            | 0                                     | 0                               | 0                          | 0                                   | (5)                      | (109)                                       |
| <b>Cost of Valuation as at 31 March 2013</b>   | <b>523,000</b>              | <b>484,776</b>                   | <b>57,886</b>                         | <b>227,033</b>                  | <b>9,973</b>               | <b>9,770</b>                        | <b>10,863</b>            | <b>1,323,301</b>                            |
| Accumulated Depreciation & Impairment at 1 April 2012  | (8,581)                     | (17,623)                         | (38,150)                              | (75,947)                        | 0                          | 0                                   | (90)                     | (140,391)                                   |
| Depreciation charge for 2012/13  | (8,537)                     | (10,490)                         | (2,828)                               | (5,520)                         | 0                          | 0                                   | (121)                    | (27,496)                                    |
| Depreciation written out to Revaluation Reserve  | 0                           | 1,333                            | 0                                     | 0                               | 0                          | 0                                   | 0                        | 1,333                                       |
| Depreciation written out to Surplus/Deficit on Services                                      | 0                           | 436                              | 0                                     | 0                               | 0                          | 0                                   | 0                        | 436   |
| Impairment losses/(reversals) recognised in the  | 0                           | 0                                | 0                                     | 0                               | 0                          | 0                                   | 0                        | 0   |
| Impairment losses/(reversals) recognised in the  | 0                           | 0                                | 0                                     | 0                               | 0                          | 0                                   | 0                        | 0   |
| Derecognition - Disposals  | 0                           | 2,387                            | 3,758                                 | 0                               | 0                          | 0                                   | 0                        | 6,145                                       |
| Derecognition - Other  | 0                           | 148                              | 0                                     | 0                               | 0                          | 0                                   | (39)                     | 109   |
| Other Movements in Depreciation & Impairment   | 0                           | 0                                | 0                                     | 0                               | 0                          | 0                                   | 0                        | 0   |
| Accumulated Depreciation & Impairment at 31 March 2013                                       | (17,118)                    | (23,809)                         | (37,220)                              | (81,467)                        | 0                          | 0                                   | (250)                    | (159,864)                                   |
| <b>Balance Sheet amount 1 April 2012</b>   | <b>495,171</b>              | <b>488,346</b>                   | <b>14,352</b>                         | <b>146,908</b>                  | <b>10,253</b>              | <b>12,432</b>                       | <b>10,585</b>            | <b>1,178,047</b>                            |
| <b>Balance Sheet amount 31 March 2013</b>  | <b>505,882</b>              | <b>460,967</b>                   | <b>20,666</b>                         | <b>145,566</b>                  | <b>9,973</b>               | <b>9,770</b>                        | <b>10,613</b>            | <b>1,163,437</b>                            |
| <b>Nature of asset holding</b>   |                             |                                  |                                       |                                 |                            |                                     |                          |   |
| Owned  | 505,882                     | 458,544                          | 20,353                                | 145,566                         | 9,973                      | 9,770                               | 10,613                   | 1,160,701                                   |
| Finance Lease  | 0                           | 0                                | 313                                   | 0                               | 0                          | 0                                   | 0                        | 313   |
| PFI  | 0                           | 2,423                            | 0                                     | 0                               | 0                          | 0                                   | 0                        | 2,423                                       |
| <b>Balance Sheet amount 31 March 2013</b>  | <b>505,882</b>              | <b>460,967</b>                   | <b>20,666</b>                         | <b>145,566</b>                  | <b>9,973</b>               | <b>9,770</b>                        | <b>10,613</b>            | <b>1,163,437</b>                            |

NB: Figures in Vehicles Plant and equipment have been adjusted from the published version of the 2012/13 statement of accounts to remove Heritage assets worth £501k (closing NBV) as this is shown in the accounts separately.



# Notes to Main Financial Statements

## 7. REVALUATION LOSSES/GAINS RECOGNISED IN COMPREHENSIVE INCOME & EXPENDITURE STATEMENT

During 2013/14, the Council has recognised total revaluation losses of £12,847k (£51,785k in 2012/13), which were fully charged to the relevant service lines in the Comprehensive Income and Expenditure Statement. The Council recognised valuation gains of £39,580k (£18,260 in 2012/13) representing the reversal of previously recognised losses, mainly on council dwellings. These entries were then reversed through the Movement in Reserves Statement to mitigate any impact on General Fund and Housing Revenue Account Balances.

## 8. COMMITMENTS UNDER CAPITAL CONTRACTS

As at March 2014, the Council has entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment during 2014/15 and future years budgeted to cost £40,433k. Similar commitments at 31 March 2013 were £14,017k. The major commitments are:

| Scheme                       | 31 March 2014<br>£000's | 31 March 2013<br>£000's |
|------------------------------|-------------------------|-------------------------|
| Queenswalk Development       | 1,469                   | 0                       |
| Schools Expansions Programme | 35,019                  | 9,857                   |
| New Vehicles                 | 477                     | 2,015                   |
| Other Capital Projects       | 3,468                   | 3,045                   |
|                              | <b>40,433</b>           | <b>14,917</b>           |

## 9. INVESTMENT PROPERTIES

The following items of income and expense have been accounted for in the Comprehensive Income and Expenditure Statement:

|  | 2013/14<br>£000's | 2012/13<br>£000's |
|--|-------------------|-------------------|
| Rental income from investment property                     | (438)             | (449)             |
| Direct operating expenses arising from investment property | 41                | 66                |
| <b>Net gain</b>  | <b>(397)</b>      | <b>(383)</b>      |

There are no restrictions on the Council's ability to realise the value inherent in its investment property or on the Council's right to the remittance of income and the proceeds of disposal. The Council has no contractual obligations to purchase, construct or develop investment properties.

The following table summarises the movement in the fair value of investment properties over the year:

|   | 2013/14<br>£000's | 2012/13<br>£000's |
|---|-------------------|-------------------|
| Opening Balance                               | 5,806             | 5,722             |
| Net (loss)/gains from fair value adjustments  | (89)              | 206               |
| Transfers: - to Property, Plant and Equipment | 0                 | (122)             |
| <b>Closing Balance</b>                        | <b>5,717</b>      | <b>5,806</b>      |

# Notes to Main Financial Statements

## 10. INTANGIBLE ASSETS

The Council accounts for its software as intangible assets, to the extent that the software is not an integral part of a particular IT system and accounted for as part of the hardware item of Property, Plant and Equipment. The intangible assets are all purchased software licences as opposed to internally generated software.

All software is given a finite useful life, based on assessments of the period that the software is expected to be of use to the Council. The current useful lives assigned to all software is 5 years.

The carrying amount of intangible assets is amortised on a straight-line basis, to the following service headings:

|                                    | 2013/14<br>£000's | 2012/13<br>£000's |
|------------------------------------|-------------------|-------------------|
| <b>Service</b>                     |                   |                   |
| Central Services to the Public     | 93                | 93                |
| Cultural, Environment and Planning | 237               | 184               |
| Adult Social Care                  | 2                 | 2                 |
| <b>Total</b>                       | <b>332</b>        | <b>279</b>        |

The movement on Intangible Asset balances during the year is as follows:

|   | 2013/14<br>£000's | 2012/13<br>£000's |
|---|-------------------|-------------------|
| <b>Software</b>   |                   |                   |
| Gross carrying amounts                                    | 2,631             | 2,494             |
| Accumulated amortisation                                  | (2,061)           | (1,782)           |
| <b>Net carrying amount at the start of the year</b>       | <b>570</b>        | <b>712</b>        |
| Purchases   | 271               | 137               |
| Gross Book Value Derecognition Other as fully depreciated | (433)             | 0                 |
| Amortisation Derecognition Other                          | 433               | 0                 |
| Amortisation for the period                               | (332)             | (279)             |
| <b>Net carrying amount at end of year</b>                 | <b>509</b>        | <b>570</b>        |
| <b>Comprising</b>   |                   |                   |
| Gross carrying amounts                                    | 2,469             | 2,631             |
| Accumulated amortisation                                  | (1,960)           | (2,061)           |
| <b>Total</b>  | <b>509</b>        | <b>570</b>        |

# Notes to Main Financial Statements

## 11. FINANCIAL INSTRUMENT BALANCES

|   | Note | Current                 |                         | Long-Term               |                         | Total                   |                         |
|---|------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
|   |      | 31 March 2014<br>£000's | 31 March 2013<br>£000's | 31 March 2014<br>£000's | 31 March 2013<br>£000's | 31 March 2014<br>£000's | 31 March 2013<br>£000's |
| <b>Investments and Cash Equivalents</b>           |      |                         |                         |                         |                         |                         |                         |
| Loans and receivables                             |      | 55,101                  | 33,293                  | 7,001                   | 1,626                   | 62,102                  | 34,919                  |
| Loans and receivables - shown as cash equivalents | 17   | 39,505                  | 56,004                  | 0                       | 0                       | 39,505                  | 56,004                  |
| Available-for-sale financial assets               |      | 0                       | 0                       | 92                      | 106                     | 92                      | 106                     |
| <b>Total investments</b>                          |      | <b>94,606</b>           | <b>89,297</b>           | <b>7,093</b>            | <b>1,732</b>            | <b>101,699</b>          | <b>91,029</b>           |
| <b>Trade Debtors</b>                              |      |                         |                         |                         |                         |                         |                         |
| Financial assets carried at contract amounts      |      | 6,502                   | 8,296                   | 38                      | 393                     | 6,540                   | 8,689                   |
| <b>Total included in Trade Debtors</b>            |      | <b>6,502</b>            | <b>8,296</b>            | <b>38</b>               | <b>393</b>              | <b>6,540</b>            | <b>8,689</b>            |
| <b>Borrowings</b>                                 |      |                         |                         |                         |                         |                         |                         |
| Financial liabilities at amortised cost           | 43   | (10,705)                | (11,791)                | (323,643)               | (332,895)               | (334,348)               | (344,686)               |
| <b>Total included in borrowings</b>               |      | <b>(10,705)</b>         | <b>(11,791)</b>         | <b>(323,643)</b>        | <b>(332,895)</b>        | <b>(334,348)</b>        | <b>(344,686)</b>        |
| <b>Other Long-Term Liabilities</b>                |      |                         |                         |                         |                         |                         |                         |
| PFI and finance lease liabilities                 | 38   | (260)                   | (263)                   | (2,211)                 | (2,473)                 | (2,471)                 | (2,736)                 |
| <b>Total Other Long-Term Liabilities</b>          |      | <b>(260)</b>            | <b>(263)</b>            | <b>(2,211)</b>          | <b>(2,473)</b>          | <b>(2,471)</b>          | <b>(2,736)</b>          |
| <b>Trade Creditors</b>                            |      |                         |                         |                         |                         |                         |                         |
| Financial liabilities carried at contract amount  |      | (27,925)                | (40,875)                | 0                       | 0                       | (27,925)                | (40,875)                |
| <b>Total Trade Creditors</b>                      |      | <b>(27,925)</b>         | <b>(40,875)</b>         | <b>0</b>                | <b>0</b>                | <b>(27,925)</b>         | <b>(40,875)</b>         |

NB: Figures in Long-Term Trade Payables have been adjusted from the published version of the 2012/13 statement of accounts to remove S106 agreements which are not financial instruments but are included within creditor balances.

# Notes to Main Financial Statements

## INCOME, EXPENSE, GAINS AND LOSSES

The gains and losses recognised in the Comprehensive Income and Expenditure Statement in relation to financial instruments are made up as follows:

|   | 2013/14  |  |   |                | 2012/13  |  |   |                |
|---|--|--|---|----------------|--|--|---|----------------|
|   | Financial Liabilities<br>measured at amortised<br>cost | Financial Assets: Loans<br>and Receivables | Financial Assets:<br>Available for Sale | Total          | Financial Liabilities<br>measured at amortised<br>cost | Financial Assets: Loans<br>and Receivables | Financial Assets:<br>Available for Sale | Total          |
|   | £000's   | £000's                                     | £000's                                  | £000's         | £000's   | £000's                                     | £000's                                  | £000's         |
| Interest expense  | 10,205   | 0  | 0                                       | 10,205         | 10,521   | 0  | 0                                       | 10,521         |
| <b>Total expense in Surplus or Deficit on<br/>the Provision of Services</b>   | <b>10,205</b>  | <b>0</b>                                   | <b>0</b>                                | <b>10,205</b>  | <b>10,521</b>  | <b>0</b>                                   | <b>0</b>                                | <b>10,521</b>  |
| Interest income   | 0  | (629)                                      | 0                                       | (629)          | 0  | (798)                                      | 0                                       | (798)          |
| Notional Icelandic Interest   | 0  | (173)                                      | 0                                       | (173)          | 0  | (203)                                      | 0                                       | (203)          |
| Gain on Derecognition   | 0  | (168)                                      | 0                                       | (168)          | 0  | 0  | 0                                       | 0              |
| Impairment Adjustment   | 0  | (137)                                      | 0                                       | (137)          | 0  | (1,301)                                    | 0                                       | (1,301)        |
| <b>Total income in Surplus or Deficit on<br/>the Provision of Services</b>  | <b>0</b>   | <b>(1,107)</b>                             | <b>0</b>                                | <b>(1,107)</b> | <b>0</b>   | <b>(2,302)</b>                             | <b>0</b>                                | <b>(2,302)</b> |
| (Gains) / Loss on revaluation   | 0  | 0  | 15                                      | 15             | 0  | 0  | (5)                                     | (5)            |
| <b>Surplus/deficit arising on revaluation<br/>of financial assets in Other<br/>Comprehensive Income and<br/>Expenditure</b> | <b>0</b>   | <b>0</b>                                   | <b>15</b>                               | <b>15</b>      | <b>0</b>   | <b>0</b>                                   | <b>(5)</b>                              | <b>(5)</b>     |
| PFI Interest  | 868  | 0  | 0                                       | 868            | 926  | 0  | 0                                       | 926            |
| Other   | 80   | (17)                                       | 0                                       | 63             | 78   | 0  | 0                                       | 78             |
| <b>Net (loss)/gain for the year</b>   | <b>11,153</b>  | <b>(1,124)</b>                             | <b>15</b>                               | <b>10,044</b>  | <b>11,525</b>  | <b>(2,302)</b>                             | <b>(5)</b>                              | <b>9,218</b>   |

# Notes to Main Financial Statements

## FAIR VALUES OF ASSETS AND LIABILITIES

Financial liabilities, financial assets represented by loans, receivables, long-term debtors and creditors are carried in the Balance Sheet at amortised cost. Fair value is defined as the amount for which an asset could be exchanged or a liability settled, assuming the transaction were negotiated between parties knowledgeable about the market in which they are dealing and willing to buy/sell at an appropriate price, with no other motive in their negotiations other than to secure a fair price. The fair value of a financial instrument on initial recognition is generally the transaction price.

The fair value of an instrument is determined by calculating the Net Present Value of future cashflows that are scheduled to take place over the remaining life of the instrument. This provides an estimate of the value of payments in the future in today's terms.

## FAIR VALUE OF LIABILITIES CARRIED AT AMORTISED COST

|                                    | 31 March 2014             |                      | 31 March 2013             |                      |
|------------------------------------|---------------------------|----------------------|---------------------------|----------------------|
|                                    | Carrying amount<br>£000's | Fair value<br>£000's | Carrying amount<br>£000's | Fair value<br>£000's |
| PWLB (Maturity Fixed)              | (144,494)                 | (139,891)            | (147,530)                 | (151,454)            |
| PWLB (Maturity Variable)           | (40,003)                  | (39,864)             | (40,002)                  | (39,864)             |
| PWLB (EIP Fixed)                   | (92,231)                  | (85,573)             | (98,035)                  | (97,378)             |
| PWLB (EIP Variable)                | (9,003)                   | (8,975)              | (10,503)                  | (10,470)             |
| Market                             | (48,617)                  | (60,075)             | (48,616)                  | (68,165)             |
| <b>Total Financial Liabilities</b> | <b>(334,348)</b>          | <b>(334,378)</b>     | <b>(344,686)</b>          | <b>(367,331)</b>     |
| PFI/Finance Lease                  | 0                         | (2,149)              | 0                         | (2,181)              |
| Creditors                          | (40,875)                  | (40,875)             | 0                         | 0                    |

The fair value of PWLB liabilities is lower than the carrying amount because the Council's debt portfolio includes a number of loans where the interest rate payable is lower than the prevailing rates at the Balance Sheet date. In contrast Market loans are higher because this portfolio includes loans where the interest rate payable is higher than the prevailing rates. Overall there is a marginal notional future loss (based on economic conditions at 31 March 2014) arising from a commitment to pay interest to lenders above current market rates.

### Financial Liabilities 2013/14

#### - Public Works Loan Board (PWLB)

The rate at which new borrowing could be undertaken has been used as the discount factor for all PWLB borrowing. This approach has been applied to maintain consistency with discount factor proxies used for other types of fair value calculations. The PWLB Certainty New Loan Rate is used to calculate the notional interest gain/loss that will accrue if the council keeps the loan until maturity.

#### - Market

Requests were made directly for market loan fair values, however this information is not available in all cases, hence a consistent methodology was applied to all market loans. The fair values of long-term "Lender's Option Borrower's Option" (LOBO) loans have been calculated by discounting the contractual cash flows over the whole life of the instrument at the appropriate interest rate SWAP rate and adding the value of the embedded options. The Lender's options to propose an increase to the interest rate on the loan have been valued according to Bloomberg's proprietary model for Bermudan cancellable swaps. The Borrower's contingent options to accept the increased rate or repay the loan have been valued at zero, on the assumption that lenders will only exercise their options when market rates have risen above the contractual loan rate.

#### - Creditors

The fair value of trade payables is taken to be the invoiced or billed amount.

#### - PFI/Finance Lease

The fair value of finance lease liabilities and of PFI scheme liabilities have been calculated by discounting the principal payments at the appropriate AA corporate bond yield.

# Notes to Main Financial Statements

## Financial Assets 2013/14

The Council's current portfolio of investments may include instruments where the calculation of fair value replicates the carrying amount on the balance sheet.

To ascertain fair values, financial assets have been divided into five categories:

- Short-Term - Maturities within 12 months

Following IFRS Code of Practice guidance for instruments that mature within 12 months (short term) the carrying amount is assumed to approximate fair value. However tradeable instruments maturing within 12 months have been updated to show their fair value.

- Impaired Investments

When assessing an impairment, identifying or estimating the recoverable amount or fair value is fundamental. Impairments have been calculated with reference to CIPFA guidance (LAAP Bulletin 82 updates). By applying this to the amortised value of the investment the resulting balance is assumed to be the fair value.

- Long-Term Investments

The fair value is calculated based on an equivalent SWAP rate.

- Long-Term Available for Sale investments

Available for sale assets and liabilities are carried in the Balance Sheet at their fair value. These fair values are based on public price quotations where there is an active market for the instrument.

- Debtors

The fair value of trade receivables is taken to be the invoiced or billed amount.

## FAIR VALUE OF ASSETS CARRIED AT AMORTISED COST

|                               | 31 March 2014   |                | 31 March 2013   |               |
|-------------------------------|-----------------|----------------|-----------------|---------------|
|                               | Carrying amount | Fair value     | Carrying amount | Fair value    |
|                               | £000s           | £000s          | £000's          | £000's        |
| Short-Term                    | 94,606          | 94,607         | 89,297          | 89,297        |
| Long-Term                     | 7,001           | 7,016          | 1,626           | 1,626         |
| Long-Term Available for Sale  | 92              | 92             | 106             | 106           |
| Debtors                       | 6,540           | 6,540          | 8,689           | 8,689         |
| <b>Total Financial Assets</b> | <b>108,239</b>  | <b>108,255</b> | <b>99,718</b>   | <b>99,718</b> |

## ICELANDIC IMPAIRMENTS

### HERITABLE BANK

Heritable Bank is a UK registered bank under Scottish law. The company was placed in administration on 7 October 2008. At the commencement of 2013/14 the Council had a balance of unpaid deposits with Heritable Bank of £3,338k. During the year a dividend was received from the administrators of Heritable Bank for £2,526k representing 16.74% of the claim. To date, dividends received total £14,188k which represents 94.02% of the claim value. The remaining dividends are expected to be received during 2014/15. The deposits have been updated to show an impairment of 5% reflecting current market recovery expectations.

Impairments are calculated using a discounted cash flow calculation with interest credited back each year until the relevant banks' books are closed. In accordance with accounting policies £59k of notional interest in relation to Heritable was credited to the Comprehensive Income and Expenditure Statement during 2013/14.

### LANDSBANKI ISLANDS

At the beginning of 2013/14 the Council had unpaid investments of £2.6m with Landsbanki Islands. The administrators of Landsbanki issued a dividend this year of £251k, which was 4.98% of the claim value, bringing the total received to 52% of the total claim. Furthermore, on the 30th January 2014 the Council successfully sold its claim against Landsbanki through an auction process conducted by Deutsche Bank. The agreed final auction price exceeded the reserve set by the Council and the auction proceeds were received on 3rd February 2014 in full and final settlement of the claim.

# Notes to Main Financial Statements

## 12. INVENTORIES

|                                      | Consumable Stores |                   | Maintenance Materials |                   | Total             |                   |
|--------------------------------------|-------------------|-------------------|-----------------------|-------------------|-------------------|-------------------|
|                                      | 2013/14<br>£000's | 2012/13<br>£000's | 2013/14<br>£000's     | 2012/13<br>£000's | 2013/14<br>£000's | 2012/13<br>£000's |
| Balance outstanding at start of year | 91                | 100               | 164                   | 175               | 255               | 275               |
| Purchases                            | 1,075             | 1,259             | 842                   | 468               | 1,917             | 1,727             |
| Recognised as expense in year        | (1,108)           | (1,268)           | (719)                 | (479)             | (1,827)           | (1,747)           |
| Balance outstanding at year-end      | <b>58</b>         | <b>91</b>         | <b>287</b>            | <b>164</b>        | <b>345</b>        | <b>255</b>        |

## 13. SHORT TERM DEBTORS

|   | 31 March<br>2014<br>£000's | 31 March<br>2013<br>£000's |
|---|----------------------------|----------------------------|
| Central Government bodies                               | 6,951                      | 6,404                      |
| Allowance for Impairment                                | 0                          | (249)                      |
| <b>Central Government Bodies net of Impairment</b>      | <b>6,951</b>               | <b>6,155</b>               |
| <b>Other local authorities</b>                          | <b>2,315</b>               | <b>1,393</b>               |
| NHS bodies  | 464                        | 335                        |
| Allowance for Impairment                                | (169)                      | (331)                      |
| <b>NHS bodies</b>                                       | <b>295</b>                 | <b>4</b>                   |
| Housing rents   | 2,660                      | 2,724                      |
| Allowance for Impairment                                | (1,831)                    | (1,638)                    |
| <b>Housing rents net of Impairment</b>                  | <b>829</b>                 | <b>1,086</b>               |
| Council taxpayers                                       | 11,930                     | 10,202                     |
| Allowance for Impairment                                | (7,205)                    | (6,518)                    |
| <b>Council taxpayers net of Impairment</b>              | <b>4,725</b>               | <b>3,684</b>               |
| Non-domestic rate payers                                | 2,233                      | 0                          |
| Allowance for Impairment                                | (996)                      | 0                          |
| <b>Non-domestic rate payers net of Impairment</b>       | <b>1,237</b>               | <b>0</b>                   |
| Other entities and individuals                          | 25,238                     | 23,295                     |
| Allowance for Impairment                                | (13,360)                   | (12,687)                   |
| <b>Other entities and individuals net of Impairment</b> | <b>11,878</b>              | <b>10,608</b>              |
| Total Debtors   | 51,791                     | 44,353                     |
| Less: Provision for doubtful debts                      | (23,561)                   | (21,423)                   |
|   | <b>28,230</b>              | <b>22,930</b>              |

## 14. LONG TERM DEBTORS

|                                 | 31 March<br>2014<br>£000's | New<br>Advances<br>£000's | Repayments<br>£000's | 31 March<br>2013<br>£000's |
|---------------------------------|----------------------------|---------------------------|----------------------|----------------------------|
| Housing advances & associations | 8                          | 0                         | (1)                  | 9                          |
| Sale of Council houses          | 81                         | 0                         | (6)                  | 87                         |
| Long term payments in advance   | 37                         | 24                        | (39)                 | 52                         |
| Other loans & advances          | 257                        | 0                         | 0                    | 257                        |
|                                 | <b>383</b>                 | <b>24</b>                 | <b>(46)</b>          | <b>405</b>                 |

# Notes to Main Financial Statements

## 15.SHORT TERM CREDITORS

|                                | 31 March 2014<br>£000's | 31 March 2013<br>£000's |
|--------------------------------|-------------------------|-------------------------|
| Council taxpayers              | (3,580)                 | (2,833)                 |
| Central Government departments | (6,647)                 | (4,871)                 |
| NHS bodies                     | (2,333)                 | (1,526)                 |
| Housing rents                  | (669)                   | (575)                   |
| Non-domestic rates pool        | 0                       | (20,196)                |
| Non-domestic rates payers      | (2,094)                 | 0                       |
| Other local authorities        | (4,340)                 | (4,607)                 |
| Sundry Creditors               | (42,725)                | (35,090)                |
|                                | <b>(62,388)</b>         | <b>(69,698)</b>         |

## 16.LONG TERM CREDITORS

Long Term Creditors consist of balances held under Section 106 and 278 Agreements and deposits which would become repayable after more than 1 year. These amount to £2,898k at 31 March 2014 (£3,897k at 31 March 2013).

## 17. CASH AND CASH EQUIVALENTS

The balance of cash and cash equivalents is made up of the following elements:

|  | 31 March 2014<br>£000's | 31 March 2013<br>£000's |
|--|-------------------------|-------------------------|
| Cash held by the Council               | 9,449                   | 15,968                  |
| Instant Access Accounts                | 39,505                  | 56,004                  |
| <b>Total Cash and Cash Equivalents</b> | <b>48,954</b>           | <b>71,972</b>           |

## 18. ASSETS HELD FOR SALE

At 31 March 2014 the Council held £1,911k of non-current assets which were available for immediate disposal and being actively marketed. It is expected that the carrying value of these assets will be recovered through proceeds of sale rather than through continuing use.

|   | Current                 |                         |
|---|-------------------------|-------------------------|
|   | 31 March 2014<br>£000's | 31 March 2013<br>£000's |
| Balance outstanding at start of year      | 11,539                  | 12,966                  |
| Assets newly classified as held for sale: |                         |                         |
| Property Plant & Equipment                | (2,970)                 | 1,807                   |
| Revaluation gains                         | 16                      | 348                     |
| Assets sold                               | (6,872)                 | (3,727)                 |
| Other movements                           | 198                     | 145                     |
|   | <b>1,911</b>            | <b>11,539</b>           |



# Notes to Main Financial Statements

## 19. HERITAGE ASSETS

At 31 March 2014 the Council held Civic Regalia and a statue 'Anticipation' that were insured for £501k. As neither a current market valuation, nor a replacement cost are available, this insurance value has been used as the basis for valuation. In addition the Council holds an 18th Century stable block within the grounds of Cranford Park alongside a collection of antique farm equipment. These are insured through the Council's general insurance scheme but do not hold specific valuations, are non-realizable and therefore are not included on the Council's balance sheet.

Balance at start of year  
Increase/(Decrease) in value  
Balance at end of year

| Non Current             |                         |
|-------------------------|-------------------------|
| 31 March 2014<br>£000's | 31 March 2013<br>£000's |
| 501                     | 178                     |
| 0                       | 323                     |
| <b>501</b>              | <b>501</b>              |

## 20. PROVISIONS

### Short-Term Provisions

|                            | 31 March 2014<br>£000's | Additional provisions made in 2013/14<br>£000's | Amounts used in 2013/14<br>£000's | Unused amounts reversed in 2013/14<br>£000's | 1 April 2013<br>£000's |
|----------------------------|-------------------------|---|-----------------------------------|--|------------------------|
| Housing Repairs Claim      | 564                     | 0   | (436)                             | 0  | 1,000                  |
| CRC Allowance Purchase     | 352                     | 352   | (328)                             | 0  | 328                    |
| Dilapidation Provision     | 1,295                   | 816   | (30)                              | (130)  | 639                    |
| Collection Fund NNDR Share | 1,289                   | 1,289   | 0                                 | 0  | 0                      |
| Repossessed Properties     | 0                       | 0   | 0                                 | (154)  | 154                    |
| Personal Searches          | 140                     | 96  | 0                                 | (66)   | 110                    |
| <b>Total Provisions</b>    | <b>3,640</b>            | <b>2,553</b>                                    | <b>(794)</b>                      | <b>(350)</b>                                 | <b>2,231</b>           |

### Long-Term Provisions

|                               | 31 March 2014<br>£000's | Additional provisions made in 2013/14<br>£000's | Amounts used in 2013/14<br>£000's | Unused amounts reversed in 2013/14<br>£000's | 1 April 2013<br>£000's |
|-------------------------------|-------------------------|---|-----------------------------------|--|------------------------|
| Insurance Provision           | 3,675                   | 292   | (268)                             | (8)  | 3,659                  |
| MMI                           | 131                     | 0   | (408)                             | (683)  | 1,222                  |
| Section 117 Mental Health Act | 179                     | 0   | 0                                 | (89)   | 268                    |
| <b>Total Provisions</b>       | <b>3,985</b>            | <b>292</b>                                      | <b>(676)</b>                      | <b>(780)</b>                                 | <b>5,149</b>           |

#### Housing Repairs Claim

Outstanding legal claim relating to Housing Repairs Contracts. This provision has been partially settled and is expected to be settled in full in 2014/15.

#### CRC Allowance Purchase

The 2013/14 financial year was the third year for which there is an obligation to purchase and surrender Carbon Reduction Commitment (CRC) Allowances in relation to carbon dioxide emissions. The retrospective purchase of allowances is anticipated to take place from 1 June 2014. The Council will then be required to surrender allowances to the scheme by the last working day in July 2014 in proportion to their reported emissions for the preceding scheme year.

2013/14 is the last year of Phase I. Registration for Phase II of the scheme was fully completed on 25th November 2013.

The Government's simplification of the CRC Energy Efficiency Scheme introduced changes effective in Phase II (April 2014 to March 2019).

# Notes to Main Financial Statements

## 20. PROVISIONS (Continued)

### **NNDR Collection Fund Share**

See note 3 to the Collection Fund Accounts on page 97. The Collection Fund Share represents the Council's 30% obligation in relation to appeals over the rateable value of properties from NNDR purposes.

### **Dilapidation Provision**

The Council is contractually obliged to fund dilapidation costs on a number of leased properties. The Highgrove pool claim was settled and the remainder of the provision was released. Stockley Park is now being treated as an insurance item and has been transferred to this provision. The remaining balance relates to a number of commercial properties which has increased in the year bringing the total to £1,295k. Works are expected to be carried out during 2014/15 on current properties provided for.

### **Repossessed Properties**

The provision has been released as the Council is satisfied that, in accordance to statute, former owners have no claim against deposits paid or a rise in value of the property.

### **Personal Searches**

Following the release of the Building Control provision the Other Provision now solely relates to Personal Searches and has been renamed accordingly.

### **Insurance**

The Council has external insurance and liability indemnity to protect against major risks associated with items such as buildings and motor vehicles. The excess levels are as follows:

1. Property - £100k for combined risks
2. Liability - £250k
3. Motor Vehicles - £100k

The Council self funds claims which fall under the excess thresholds. The insurance fund provision is to provide for outstanding claims against the Council as at 31 March 2014.

There is no certainty as to when claims will be resolved, so full insurance provision is held as long term.

### **Municipal Mutual Insurance (MMI)**

MMI ceased trading in 1992 and have been only dealing with claims relating to their period of trading since that time, using existing reserves to pay for claims with the hope of achieving a solvent run off. In November 2012, it was deemed that this would not be possible and MMI went to the Scheme Administrator, Ernst & Young, to determine the likely outstanding liability for Incurred But Not Reported (IBNR) claims and to then impose a levy on Scheme Creditors to ensure sufficient funds to cover this. The levy was set at 15% and payment was requested and made in January 2014. In addition, for all future claims after the 1st January 2014, LBH will be required to pay 15% of settlement payments and solicitors costs. As such, an estimation has been undertaken of all outstanding claims to determine their potential liability and the provision has been reduced to this level. This will be monitored each year and the provision will be adjusted in line with outstanding claims. There is no certainty on when claims/costs will be incurred.

### **Section 117 Mental Health Act**

A provision has been made to accommodate possible contribution payment claims by clients who were sectioned under the S117 of the Mental Health Act. This provision has been reduced reflecting the increasingly historic nature if these potential claims. There is no certainty on when claims/costs will be incurred.

## 21. USABLE RESERVES

Movements in the Council's usable reserves are detailed in the Movement in Reserves Statement and in notes 1 and 2.

# Notes to Main Financial Statements

## 22. UNUSABLE RESERVES

These are reserves which do not relate directly to in-year Income and Expenditure and are thus classed as 'Unusable' under the Code.

## CAPITAL ADJUSTMENT ACCOUNT

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. The Account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis). The Account is credited with the amounts set aside by the Council as finance for the costs of acquisition, construction and enhancement.

The Account contains accumulated gains and losses on Investment Properties and gains recognised on donated assets that have yet to be consumed by the Council.

The Account also contains revaluation gains accumulated on Property, Plant and Equipment before 1 April 2007, being the date that the Revaluation Reserve was created to hold such gains.

|  | 2013/14  |                | 2012/13  |                |
|--|----------|----------------|----------|----------------|
|  | £000's   | £000's         | £000's   | £000's         |
| <b>Balance at 1 April</b>  |          | <b>713,540</b> |          | <b>723,483</b> |
| Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:                               |          |                |          |                |
| - Charges for depreciation and impairment of non-current assets  | (31,114) |                | (27,496) |                |
| - Revaluation gains/(losses) on Property, Plant and Equipment  | 26,822   |                | 10,882   |                |
| - Amortisation of intangible assets  | (332)    |                | (279)    |                |
| - Revenue expenditure funded from capital under statute  | (11,298) |                | (6,785)  |                |
| - Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement | (31,143) | (47,065)       | (46,719) | (70,397)       |
| - HRA settlement debt  |          | 0              |          | 10,251         |
| Adjusting amounts written out of the Revaluation Reserve   |          | 1,955          |          | 3,272          |
| Net written out amount of the cost of non-current assets consumed in the year  |          | (45,110)       |          | (56,874)       |
| Capital financing applied in the year:   |          |                |          |                |
| - Use of the Capital Receipts Reserve to finance new capital expenditure   | 8,922    |                | 7,457    |                |
| - Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing              | 51,671   |                | 12,605   |                |
| - Application of grants to capital financing from the Capital Grants Unapplied Account   | 15,829   |                | 14,134   |                |
| - Statutory and voluntary provision for the financing of capital investment charged against the General Fund and HRA balances                              | 14,555   |                | 5,068    |                |
| - Finance Lease Principal  | 263      |                | 388      |                |
| - Capital expenditure charged against the General Fund and HRA balances  | 5,985    | 97,225         | 7,073    | 46,725         |
| Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure                                     |          | (89)           |          | 206            |
| <b>Balance at 31 March</b>   |          | <b>765,566</b> |          | <b>713,540</b> |

# Notes to Main Financial Statements

## FINANCIAL INSTRUMENT ADJUSTMENT ACCOUNT

The Financial Instrument Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for income and expenses relating to certain financial instruments and for bearing losses or benefiting from gains in accordance with statutory provisions. The Council uses the Account to manage premiums paid on the early redemption of loans. Premiums are debited to the Comprehensive Income and Expenditure Statement when they are incurred, but reversed out of the General Fund Balance to the Account in the Movement in Reserves Statement. Over time, the expense is posted back to the General Fund Balance in accordance with statutory arrangements for spreading the burden on council tax. In the Authority's case, this period is the unexpired term that was outstanding on the loans when they were redeemed.

|   | 2013/14<br>£000's | 2012/13<br>£000's |
|---|-------------------|-------------------|
| <b>Balance at 1 April</b>   | <b>(367)</b>      | <b>(379)</b>      |
| Proportion of premiums incurred in previous financial years to be charged against the General Fund Balance in accordance with statutory requirements  | 98                | 98                |
| Proportion of discounts incurred in previous financial years to be charged against the General Fund Balance in accordance with statutory requirements | (86)              | (86)              |
| <b>Balance at 31 March</b>  | <b>(355)</b>      | <b>(367)</b>      |

## COLLECTION FUND ADJUSTMENT ACCOUNT

The Collection Fund Adjustment Account manages the differences arising from the recognition of Council Tax and Non-Domestic Rate income in the Comprehensive Income and Expenditure Statement as it falls due from council tax and business rate payers compared with the statutory arrangements for paying amounts across to the General Fund from the Collection Fund.

The movement in the Collection Fund Adjustment Accounts is represented by a surplus of £1,554k for Council Tax and a deficit of £387k for Non-Domestic Rates.

|   | 31 March 2014<br>£000's | 31 March 2013<br>£000's |
|---|-------------------------|-------------------------|
| <b>Balance at 1 April</b>   | <b>2,853</b>            | <b>2,112</b>            |
| Amount by which council tax and non-domestic rates income credited to the Comprehensive Income and Expenditure Statement is different from income calculated for the year in accordance with statutory requirements | 1,167                   | 741                     |
| <b>Balance at 31 March</b>  | <b>4,020</b>            | <b>2,853</b>            |

# Notes to Main Financial Statements

## REVALUATION RESERVE

The Revaluation Reserve contains the gains made by the Council arising from increases in the value of its Property, Plant and Equipment (and Intangible Assets). The balance is reduced when assets with accumulated gains are:

- re-valued downwards or impaired and the gains are lost
- used in the provision of services and the gains are consumed through depreciation, or
- disposed and the gains are realised

The Reserve contains only revaluations gains accumulated since 1 April 2007, the date that the Reserve was created. Accumulated gains arising before that date are consolidated into the balance on the Capital Adjustment Account.

|  | 2013/14 |                | 2012/13 |                |
|--|---------|----------------|---------|----------------|
|  | £000's  | £000's         | £000's  | £000's         |
| <b>Balance at 1 April</b>  |         | <b>59,624</b>  |         | <b>57,458</b>  |
| Upward revaluation of assets   |         |                |         |                |
| - Land & Buildings   | 3,132   |                | 7,241   |                |
| - Surplus Assets   | 0       |                | 200     |                |
| - Assets held for sale   | 16      |                | 348     |                |
| - Heritage Assets  | 0       | 3,148          | 323     | 8,112          |
| Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services             |         |                |         |                |
| - Land & Buildings   | (4,281) |                | (2,851) |                |
| - Surplus Assets   | (155)   |                | 0       |                |
| - Accumulated Gains  | 0       | (4,436)        | (79)    | (2,930)        |
| <b>Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services</b> |         | <b>(1,288)</b> |         | <b>5,182</b>   |
| Difference between fair value depreciation and historical cost depreciation  |         |                |         |                |
| - Land & Buildings   | (1,446) |                | (2,992) |                |
| - Surplus Assets   | (23)    |                | (24)    |                |
| - Assets under construction  | (5)     | (1,474)        | 0       | (3,016)        |
| Accumulated gains on assets sold or scrapped   |         |                |         |                |
| - Assets held for sale   | (358)   |                | 0       |                |
| - Land & Buildings   | (116)   |                | 0       |                |
| - Community  | (7)     | (481)          | 0       | 0              |
| <b>Amount written off to the Capital Adjustment Account</b>  |         | <b>(1,955)</b> |         | <b>(3,016)</b> |
| <b>Balance at 31 March</b>   |         | <b>56,381</b>  |         | <b>59,624</b>  |

# Notes to Main Financial Statements

## PENSIONS RESERVE

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post employment benefits and for funding benefits in accordance with statutory provisions. The Council accounts for post employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet these costs. However, statutory arrangements require benefits earned to be financed as the Council makes employer's contributions to pension funds or eventually pays any pension for which it is directly responsible. The debit balance on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the Council has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

|  | 2013/14<br>£000's | 2012/13<br>£000's |
|--|-------------------|-------------------|
| <b>Balance at 1 April</b>  | <b>(373,262)</b>  | <b>(313,199)</b>  |
| Actuarial gains/(losses) on pensions assets and liabilities  | 7,969             | (54,339)          |
| Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement | (41,421)          | (26,926)          |
| Employer's pension contributions and direct payments to pensioners payable in the year   | 24,774            | 21,202            |
| <b>Balance at 31 March</b>   | <b>(381,940)</b>  | <b>(373,262)</b>  |

## ACCUMULATED ABSENCES ACCOUNT

The Accumulated Absences Account absorbs the differences that would otherwise arise on the General Fund Balance from accruing for compensated absences earned but not taken in the year. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the Account.

|   | 2013/14<br>£000's | 2012/13<br>£000's |
|---|-------------------|-------------------|
| <b>Balance at 1 April</b>   | <b>(5,959)</b>    | <b>(7,197)</b>    |
| Settlement or cancellation of accrual made at the end of the preceding year | 5,959             | 7,197             |
| Amounts accrued at the end of the current year                              | (5,362)           | (5,959)           |
| <b>Balance at 31 March</b>  | <b>(5,362)</b>    | <b>(5,959)</b>    |

# Notes to Main Financial Statements

## AVAILABLE FOR SALE FINANCIAL INSTRUMENTS RESERVE

The Available for Sale Financial Instruments Reserve contains the gains made by the Authority arising from increases in the value of its investments that have quoted market prices or otherwise do not have fixed or determinable payments. The value has increased due to upward valuations of the financial assets.

|                               | 2013/14<br>£000's | 2012/13<br>£000's |
|-------------------------------|-------------------|-------------------|
| <b>Balance as at 1 April</b>  | 46                | 41                |
| Change in Fair Value in year  | (15)              | 5                 |
| <b>Balance as at 31 March</b> | <b>31</b>         | <b>46</b>         |

## 23. CASH FLOW STATEMENT - OPERATING ACTIVITIES

|   | 2013/14<br>£000's | 2012/13<br>£000's |
|---|-------------------|-------------------|
| <b>(Surplus)/Deficit on the provision of services</b>   | <b>(60,279)</b>   | <b>(8,991)</b>    |
| Depreciation and impairment of non current assets   | (4,292)           | (7,757)           |
| Amortisation of intangible fixed assets   | (332)             | (279)             |
| Revenue Expenditure Funded from Capital under Statute   | (11,298)          | (6,785)           |
| Pension Fund adjustments  | (16,551)          | (5,724)           |
| (Increase) in impairment for provision for bad debts  | (2,138)           | (294)             |
| Decrease/(Increase) in creditors  | 8,309             | 14,315            |
| (Decrease)/Increase in debtors  | 7,416             | (2,300)           |
| (Decrease)/Increase in inventories  | 90                | (20)              |
| Carrying amount of non-current assets sold  | (31,143)          | (46,719)          |
| Other non-cash items charged to the net Surplus or Deficit on the Provision of Services   | (1,230)           | (6,808)           |
| <b>Total adjusting items</b>  | <b>(51,169)</b>   | <b>(62,371)</b>   |
| <b>Adjustments for items included in the net Surplus or deficit on the Provision of Services that are investing or financing activities</b> |                   |                   |
| Proceeds from the disposal of plant, property and equipment, investment property and intangible assets                                      | 19,360            | 12,438            |
| Net proceeds from long-term investments   | 0                 | 785               |
| Capital Grants credited to Surplus or Deficit on the Provision of Services  | 51,671            | 29,023            |
| Billing Authorities - Council Tax and NNDR adjustments  | (14,422)          | (7,300)           |
| <b>Total included elsewhere on Cash Flow Statement</b>  | <b>56,609</b>     | <b>34,946</b>     |
| <b>Net cash flows from operating activities</b>   | <b>(54,839)</b>   | <b>(36,416)</b>   |

### Interest received, interest paid and dividends received

|                                      | 2013/14<br>£000's | 2012/13<br>£000's |
|--------------------------------------|-------------------|-------------------|
| Interest payable and similar charges | (11,153)          | (11,525)          |
| Interest receivable                  | 1,124             | 2,302             |

# Notes to Main Financial Statements

## 24. CASH FLOW STATEMENT - INVESTING ACTIVITIES

|   | 2013/14<br>£000's | 2012/13<br>£000's |
|---|-------------------|-------------------|
| <b>Cash Outflows</b>                              |                   |                   |
| Purchase of property, plant and equipment         | 79,888            | 42,197            |
| Other payments for investing activities           | 11,298            | 6,785             |
|   | <b>91,186</b>     | <b>48,982</b>     |
| <b>Cash Inflows</b>                               |                   |                   |
| Sale of property, plant and equipment             | (19,360)          | (12,438)          |
| Capital grants received                           | (41,447)          | (24,821)          |
| Other receipts from investing activities          | (4,654)           | (4,202)           |
|   | <b>(65,461)</b>   | <b>(41,461)</b>   |
| <b>Net Cash Outflow</b>                           | <b>25,725</b>     | <b>7,521</b>      |
| Net (Decrease)/Increase in Short-Term Investments | 21,808            | (6,080)           |
| Net (Decrease) in Long-Term Investments           | 5,361             | (785)             |
| <b>Net cash flows from investing activities</b>   | <b>52,894</b>     | <b>656</b>        |

## 25. CASH FLOW STATEMENT - FINANCING ACTIVITIES

|   | 2013/14<br>£000's | 2012/13<br>£000's |
|---|-------------------|-------------------|
| <b>Cash Outflows</b>  |                   |                   |
| Repayments of amounts borrowed  | 10,278            | 10,278            |
| Capital element of finance lease rental and on-balance sheet PFI payments | 263               | 389               |
| <b>Cash Inflows</b>   |                   |                   |
| Billing Authorities - Council Tax and NNDR adjustments                    | 14,422            | 7,300             |
| <b>Net cash flows from financing activities</b>                           | <b>24,963</b>     | <b>17,967</b>     |



# Notes to Main Financial Statements

## 26. AMOUNTS REPORTED FOR RESOURCE ALLOCATION DECISIONS

The analysis of income and expenditure by service on the face of the Comprehensive Income and Expenditure Statement is that specified by the Service Reporting Code of Practice (SERCOP). However, decisions about resource allocation are taken by the Council on the basis of budget reports analysed across directorates. These reports are prepared on a different basis from the accounting policies used in the financial statements. In particular:

- no charges are made in relation to capital expenditure (whereas depreciation, revaluation and impairment losses in excess of the balance on the Revaluation Reserve and amortisations are charged to services in the Comprehensive Income and Expenditure Statement)
- the cost of retirement benefits is based on cash flows (payment of employer's pension contributions) rather than current service cost of benefits accrued in year

This note details a reconciliation between service income and expenditure as reported by Hillingdon Council's internal management structure and the Service Reporting structure.

### SERVICE INFORMATION 2013/14 RECORDED IN OUTTURN REPORT

|                                      | Administration<br>Finance &<br>Corporate Items<br>£000's | Residents<br>Services<br>£000's | Adult Social<br>Care<br>£000's | Children &<br>Young<br>People's<br>Services<br>£000's | Total<br>General<br>Fund<br>£000's | Housing<br>Revenue<br>Account<br>£000's | Schools<br>Budget<br>£000's | Parking<br>Revenue<br>Account<br>£000's | Total<br>£000's |
|--------------------------------------|--|---------------------------------|--------------------------------|---|------------------------------------|---|-----------------------------|---|-----------------|
| Expenditure                          | 177,924  | 138,668                         | 72,235                         | 33,485  | 422,312                            | 52,596                                  | 142,970                     | 3,878                                   | 621,756         |
| Income                               | (156,098)  | (71,805)                        | (13,939)                       | (10,120)  | (251,962)                          | (56,328)                                | (146,042)                   | (3,726)                                 | (458,058)       |
| <b>Directorate Operating Budgets</b> | <b>21,826</b>  | <b>66,863</b>                   | <b>58,296</b>                  | <b>23,365</b>   | <b>170,350</b>                     | <b>(3,732)</b>                          | <b>(3,072)</b>              | <b>152</b>                              | <b>163,698</b>  |
| Corporate Operating Budgets          | 15,803   | 0                               | 0                              | 0   | 15,803                             | 0                                       | 0                           | 0                                       | 15,803          |
| Development & Risk Contingency       | 1,400  | 4,877                           | 10,402                         | 1,898   | 18,577                             | 0                                       | 0                           | 0                                       | 18,577          |
| Priority Growth                      | 1,530  | 0                               | 0                              | 0   | 1,530                              | 0                                       | 0                           | 0                                       | 1,530           |
| Exceptional Items                    | (1,457)  | 0                               | 0                              | (200)   | (1,657)                            | 0                                       | 0                           | 0                                       | (1,657)         |
| Budget Requirement                   | (211,648)  | 0                               | 0                              | 0   | (211,648)                          | 0                                       | 0                           | 0                                       | (211,648)       |
| <b>Management Outturn</b>            | <b>(172,546)</b>   | <b>71,740</b>                   | <b>68,698</b>                  | <b>25,063</b>   | <b>(7,045)</b>                     | <b>(3,732)</b>                          | <b>(3,072)</b>              | <b>152</b>                              | <b>(13,697)</b> |

### Reconciliation to Net Cost of Services in Comprehensive Income and Expenditure Statement

|  |                |
|--|----------------|
| <b>Cost of Services in Service Analysis (above)</b>  | <b>£000's</b>  |
| Notional accounting charges not reported to management   | (13,697)       |
| Amounts reported to management not included in Comprehensive Income and Expenditure net cost of services | (35,434)       |
| <b>Cost of Services in Comprehensive Income and Expenditure Statement</b>                                | <b>217,762</b> |
| <b>Management Outturn</b>  | <b>168,631</b> |

Notional accounting charges, primarily in respect of Depreciation, which are not chargeable to the Council Taxpayer under Statute are excluded from the management outturn.

The Code of Practice requires certain items to be shown below the Net Cost of Services in the Comprehensive Income and Expenditure Statement or within the Movement in Reserves Statement which are included within the Outturn report. This adjustment also reversed out all intercompany transactions through corporate recharging which cannot be shown in the Comprehensive Income and Expenditure Statement.

# Notes to Main Financial Statements

This reconciliation shows how the figures in the analysis of directorate income and expenditure relate to a subjective analysis of the deficit on the provision of services included in the Comprehensive Income and Expenditure Statement.

2013/14

## Reconciliation to Subjective Analysis

|   |  |
|---|--|
| Fees, charges & other service income                  |  |
| Interest and investment income                        |  |
| Income from Council Tax and Non-Domestic Rates        |  |
| Government Grant and Contributions                    |  |
| <b>Total Income</b>                                   |  |
| Employee expenses                                     |  |
| Other service expenses                                |  |
| Depreciation, amortisation & impairment               |  |
| Interest payments                                     |  |
| Precepts & Levies                                     |  |
| Payments to Housing Cap Receipts Pool                 |  |
| Gain or Loss on Disposal of Non Current Assets        |  |
| <b>Total operating expenses</b>                       |  |
| <b>Deficit/(Surplus) on the provision of services</b> |  |

| Service Analysis<br>£000's | Notional Accounting Charges not reported to management<br>£000's | Amounts reported to management not included in Comprehensive Income and Expenditure net cost of services<br>£000's | Net Cost of Services<br>£000's | Below Net Cost of Services<br>£000's | Total<br>£000's  |
|----------------------------|--|--|--------------------------------|--------------------------------------|------------------|
| (258,139)                  | 0  | 139,655  | (118,484)                      | (7)                                  | (118,491)        |
| (2,424)                    | 0  | 2,424  | 0                              | (1,124)                              | (1,124)          |
| (139,787)                  | (438)  | 140,225  | 0                              | (140,225)                            | (140,225)        |
| (423,904)                  | 0  | 77,106   | (346,798)                      | (128,778)                            | (475,576)        |
| <b>(824,254)</b>           | <b>(438)</b>   | <b>359,410</b>   | <b>(465,282)</b>               | <b>(270,134)</b>                     | <b>(735,416)</b> |
| 234,757                    | (49)   | (9,367)  | 225,341                        | 16,600                               | 241,941          |
| 553,372                    | 489  | (5,257)  | 548,604                        | 0                                    | 548,604          |
| 9,492                      | (35,195)   | (114,329)  | (140,032)                      | 89                                   | (139,943)        |
| 12,298                     | (241)  | (12,057)   | 0                              | 11,153                               | 11,153           |
| 638                        | 0  | (638)  | 0                              | 638                                  | 638              |
| 0                          | 0  | 0  | 0                              | 953                                  | 953              |
| 0                          | 0  | 0  | 0                              | 11,791                               | 11,791           |
| <b>810,557</b>             | <b>(34,996)</b>  | <b>(141,648)</b>   | <b>633,913</b>                 | <b>41,224</b>                        | <b>675,137</b>   |
| <b>(13,697)</b>            | <b>(35,434)</b>  | <b>217,762</b>   | <b>168,631</b>                 | <b>(228,910)</b>                     | <b>(60,279)</b>  |

# Notes to Main Financial Statements

## SERVICE INFORMATION 2012/13 RECORDED IN OUTTURN REPORT

|                             | Central Services<br>£000's | Social Care, Health &<br>Housing<br>£000's | Environment and Community<br>Services<br>£000's | Total<br>£000's |
|-----------------------------|----------------------------|--|---|-----------------|
| Total Income                | (173,917)                  | (365,794)                                  | (26,613)  | (566,324)       |
| Total operating expenses    | 185,425                    | 453,757                                    | 136,111   | 775,293         |
| Corporate Items             | 12,432                     | 620  | 0   | 13,052          |
| <b>Net Cost of Services</b> | <b>23,940</b>              | <b>88,583</b>                              | <b>109,498</b>                                  | <b>222,021</b>  |

### Reconciliation to Net Cost of Services in Comprehensive Income and Expenditure Statement

#### Cost of Services in Service Analysis (above)

Add services not included in main analysis

Add Net Cost of Service Adjustments

Remove amounts reported to management not included in Comprehensive Income and Expenditure net cost of services

#### Net Cost of Services in Comprehensive Income and Expenditure Statement

|                |         |
|----------------|---------|
| £000's         | 222,021 |
| (40,903)       |         |
| (5,530)        |         |
| (381)          |         |
| <b>175,207</b> |         |

The Housing Revenue Account (HRA) Net Cost of Services does not form part of the outturn report to management.

Amounts to repay the principal amounts for finance leases, revenue contribution to capital outlay and annual leave accrual are required to be shown separately from the Net Cost of Services in the accounting statements.

The Code of Practice requires certain items to be shown below the Net Cost of Services in the Comprehensive Income and Expenditure Statement which are included within the service lines in the Outturn report.

# Notes to Main Financial Statements

2012/13

## Reconciliation to Subjective Analysis

|   | Service Analysis<br>£000's | Service Amounts not in Analysis<br>£000's | Net Cost of Service Adjustments<br>£000's | Not included in I&E services<br>£000's | Net Cost of Services<br>£000's | Below Net Cost of Services<br>£000's | Total<br>£000's  |
|---|----------------------------|---|---|--|--------------------------------|--------------------------------------|------------------|
| Fees, charges & other service income  | (210,216)                  | (60,734)                                  | 157,468                                   | 0                                      | (113,482)                      | (706)                                | (114,188)        |
| Interest and investment income  | 0                          | 0   | 0   | 0                                      | 0                              | (2,508)                              | (2,508)          |
| Income from council tax   | 0                          | 0   | 0   | 0                                      | 0                              | (113,629)                            | (113,629)        |
| Government Grant and Contributions  | (356,274)                  | (2,610)                                   | 2,969                                     | 0                                      | (355,915)                      | (130,487)                            | (486,402)        |
| <b>Total Income</b>   | <b>(566,490)</b>           | <b>(63,344)</b>                           | <b>160,437</b>                            | <b>0</b>                               | <b>(469,397)</b>               | <b>(247,330)</b>                     | <b>(716,727)</b> |
| Employee expenses   | 227,095                    | (6,253)                                   | (1,238)                                   | 0                                      | 219,604                        | 14,670                               | 234,274          |
| Other service expenses  | 560,860                    | 28,694                                    | (164,173)                                 | (381)                                  | 425,000                        | 0                                    | 425,000          |
| Depreciation, amortisation & impairment   | 556                        | 0   | (556)                                     | 0                                      | 0                              | 0                                    | 0                |
| Interest payments   | 0                          | 0   | 0   | 0                                      | 0                              | 11,525                               | 11,525           |
| Precepts & Levies   | 0                          | 0   | 0   | 0                                      | 0                              | 627                                  | 627              |
| Payments to Housing Cap Receipts Pool   | 0                          | 0   | 0   | 0                                      | 0                              | 1,564                                | 1,564            |
| Local Authority Housing settlement payment to Government for HRA self financing | 0                          | 0   | 0   | 0                                      | 0                              | 0                                    | 0                |
| Gain or Loss on Disposal of Non Current Assets                                  | 0                          | 0   | 0   | 0                                      | 0                              | 0                                    | 0                |
| <b>Total operating expenses</b>   | <b>788,511</b>             | <b>22,441</b>                             | <b>(165,967)</b>                          | <b>(381)</b>                           | <b>644,604</b>                 | <b>34,746</b>                        | <b>34,746</b>    |
| <b>Deficit/(Surplus) on the provision of services</b>                           | <b>222,021</b>             | <b>(40,903)</b>                           | <b>(5,530)</b>                            | <b>(381)</b>                           | <b>175,207</b>                 | <b>63,132</b>                        | <b>707,736</b>   |
|   |                            |   |   |  |                                | <b>(184,198)</b>                     | <b>(8,991)</b>   |

## Reconciliation of net cost of services in outturn report to overall surplus reported in management

|                      |  |
|----------------------|--|
| <b>31 March 2013</b> |  |
| <b>£000's</b>        |  |
| <b>222,021</b>       |  |
| 8,167                |  |
| (29,232)             |  |
| (17,225)             |  |
| (190,667)            |  |
| 2,126                |  |
| <b>(4,810)</b>       |  |

## Net Cost of Services in Service Analysis

Interest & Investment Income  
 Corporate Government Grants not included in the budget requirement  
 Central Adjustment (excluding HRA)  
 Budget Requirement  
 Budgeted Contribution to Balances  
**Overall Surplus Reported to Management**

# Notes to Main Financial Statements

## 27. EXTERNAL AUDIT COSTS

The Council has incurred the following costs in relation to audit of the Statement of Accounts, certification of grant claims and statutory inspections provided by the Council's external auditors:

|  | 2013/14<br>£000's | 2012/13<br>£000's |
|--|-------------------|-------------------|
| Fees payable in regard to external audit services carried out by the appointed auditor | 211               | 207               |
| Fees payable for the certification of grant claims and returns                         | 39                | 208               |
| <b>Total External Audit costs</b>  | <b>250</b>        | <b>415</b>        |

**Non Audit Fees** - The Council incurred £145k of costs during 2013/14 (£349k 2012/13) from Deloitte Real Estate (formerly Drivers Jonas Deloitte), a division forming part of Deloitte LLP, the Council's external auditors. This was in respect of project management, employers agent, quantity surveying and design monitoring services associated with the Council's Primary School Capital Programme.

## 28. PARKING REVENUE ACCOUNT

The Parking Revenue Account is maintained in accordance with Section 55 of the Road Traffic Regulation Act 1984 which provides that a London Borough council must keep an account of the income and expenditure in respect of parking places on the highway and sets out how any deficit must be treated and limitations on the use of any surplus.

|                        | 2013/14<br>£000's | 2012/13<br>£000's |
|------------------------|-------------------|-------------------|
| Income                 | (3,726)           | (3,964)           |
| Expenditure            | 2,941             | 3,189             |
| <b>Total (Surplus)</b> | <b>(785)</b>      | <b>(775)</b>      |

## 29. AGENCY SERVICES

In August 2012 the agency accounts were closed for the Heathrow Health Control unit and the responsibility passed to the Health Protection Agency.

## 30. MEMBER ALLOWANCES

The Council paid the following amounts to members during the year.

|                       | 2013/14<br>£000's | 2012/13<br>£000's |
|-----------------------|-------------------|-------------------|
| Salaries & Allowances | 1,544             | 1,540             |
| <b>Total</b>          | <b>1,544</b>      | <b>1,540</b>      |

Further details on Members allowances on website.

## 31. POOLED BUDGETS

A section 75 agreement is in operation between London Borough of Hillingdon and Hillingdon Clinical Commissioning Group (CCG) in respect of Learning Disability Services and was effective from 1st April 2008. This is not operating as a Pooled Budget in that it clearly identifies the financial liabilities of the two partners on an individual client basis. The object of the agreement is to enable the effective commissioning of services for this client group thereby providing a seamless service to the individual. For 2013/14 this service provided support to approximately 604 clients at a gross cost of £30,329k which included approximately 23 CCG clients for which the council received £2,494k.

A further section 75 agreement is in operation between London Borough of Hillingdon (LBH) and Hillingdon Clinical Commissioning Group (CCG) in respect of Community Equipment Services. This S75 agreement started on 1st April 2010. This is operating as a Pooled Budget with LBH and CCG sharing the cost of the service for 2013/14 at 58% and 42% respectively. The service is to provide community equipment to assist residents with daily living tasks. The net Pooled Budget expenditure for 2013/14 was £1,160k of which the CCG funded £486k and the LBH funded £674k.

# Notes to Main Financial Statements

## 32. RELATED PARTY TRANSACTIONS

The Council is required to disclose any material transactions with related parties - bodies or individuals that have the potential to control or influence the Council or to be controlled or influenced by the Council. Disclosure of these transactions allows readers to assess the extent to which the Council might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with the Council.

### Central Government

Central government has effective control over the general operations of the Council - it is responsible for providing the statutory framework within which the Council operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties (e.g. council tax bills, housing benefits). Grants received from government departments are set out in Note 36.

### London Housing Consortium

The Council, in partnership with other councils and housing associations, participates in the London Housing Consortium (LHC). The LHC provides specialist architectural services and bulk procurement arrangements for the public sector.

### West London Waste Authority

West London Waste Authority is a statutory waste disposal authority created in 1986 by the London Borough of Hillingdon and five other London Boroughs. It is primarily funded by a levy paid by each of the six participating councils. The amount contributed for 2013/14 is included under the heading Precepts and Levies below.

### The Pension Fund

The London Borough of Hillingdon pension fund is considered a related party. The employer's contribution to the pension fund in 2013/14 was £20,733k (£19,118k 2012/13). A precept of £350k was paid to the London Pension Fund Authority in 2013/14 (£339k in 2012/13).

### Members and Chief Officers

Members of the Council have direct control over the Council's financial and operating policies. The total of members' allowances paid in 2013/14 is shown in Note 30.

This note concerns the disclosure of additional information on transactions between the Council and its related parties. The purpose of the note is to demonstrate fairness and openness in the accounts. All councillors and relevant officers are required to complete declarations to meet the requirements of IAS 24 - Transactions with Related Parties. Disclosures of Interest have been made in respect of the following organisations, the payment amount will not necessarily be just in respect of grants but will be a total of transactions between the Council and the organisation during the year. There were no material outstanding balances at year end.

| Organisation                                     | Name                             | Payment     |
|--|----------------------------------|-------------|
| Central & North West London NHS Foundation Trust | Councillor Peter Kemp            | £519,500.62 |
| Hillingdon Carers                                | Councillor Judith Cooper         | £422,961.70 |
| Hillingdon & Ealing Citizens Advice              | Councillor George Cooper         | £408,829.24 |
| Hillingdon & Ealing Citizens Advice              | Councillor Carol Melvin          | £408,829.24 |
| Hillingdon Mind                                  | Councillor Peter Kemp            | £262,278.95 |
| Hillingdon Mind                                  | Councillor Mary O'Conner         | £262,278.95 |
| Hillingdon AIDS Response Trust                   | Councillor Richard Barnes        | £112,000.00 |
| Hillingdon AIDS Response Trust                   | Councillor Peter Curling         | £112,000.00 |
| Hillingdon AIDS Response Trust                   | Councillor Scott Seaman-Digby    | £112,000.00 |
| Hillingdon Assoc Of Voluntary Serv.              | Councillor Judith Cooper         | £83,018.00  |
| Hillingdon Assoc Of Voluntary Serv.              | Councillor John Major            | £83,018.00  |
| Hillingdon Assoc Of Voluntary Serv.              | Councillor David Routledge       | £83,018.00  |
| Groundwork South Trust Ltd                       | Councillor George Cooper         | £80,500.00  |
| Ruislip Northwood Old Folks Assoc                | Councillor Catherine Dann        | £79,600.00  |
| Hillingdon Outdoor Activities Centre             | Councillor Henry Higgins         | £58,535.00  |
| Hillingdon Crossroads                            | Councillor John Major            | £54,551.44  |
| Colne Valley CIC                                 | Councillor David Payne           | £24,557.00  |
| Hospital Radio Hillingdon                        | Councillor Peter Curling         | £20,000.00  |
| The Hillingdon Hospital NHS Trust                | Councillor Neil Fyfe             | £17,045.02  |
| The Hillingdon Hospital NHS Trust                | Councillor Raymond Puddifoot MBE | £17,045.02  |



# Notes to Main Financial Statements

## 32. RELATED PARTY TRANSACTIONS (Continued)

### Precepts/Levies

In 2013/14 the following precepts and levies are considered related party transactions:

|                                    | 2013/14<br>£000s |
|------------------------------------|------------------|
| Business Rate Retention - DCLG     | 210,678          |
| Business Rate Retention - GLA      | 66,265           |
| Greater London Authority Precept   | 26,744           |
| Greater London Authority Crossrail | 12,289           |
| West London Waste Authority Levy   | 10,419           |
| TFL Concessionary Fares            | 7,699            |
| Lee Valley Regional Park Authority | 287              |
| TFL CIL                            | 214              |
| Environment Agency                 | 205              |

## 33. OFFICER EMOLUMENTS

The number of employees in 2013/14 whose remuneration, excluding pension contributions, was £50k or more, are detailed below in bands of £5k. The bandings only include the remuneration of senior employees that have not been disclosed separately. The number of employees included in the totals that exceeded the £50k threshold due to lump sum termination payments are indicated in brackets. These employees left the employment of the Council during the financial year.

| Remuneration Band   | LBH EMPLOYEES (Excluding Senior Employees) |                 |         |                 | SCHOOL EMPLOYEES |                 |         |                 |
|---------------------|--|-----------------|---------|-----------------|------------------|-----------------|---------|-----------------|
|                     | 2013/14                                    |                 | 2012/13 |                 | 2013/14          |                 | 2012/13 |                 |
|                     | Total                                      | Due to Lump Sum | Total   | Due to Lump Sum | Total            | Due to Lump Sum | Total   | Due to Lump Sum |
| £50,000 - £54,999   | 55   | (2)             | 57      | (1)             | 52               | 0               | 49      | (2)             |
| £55,000 - £59,999   | 24   | (1)             | 30      | (1)             | 19               | 0               | 25      | 0               |
| £60,000 - £64,999   | 17   | (3)             | 19      | (4)             | 23               | 0               | 17      | 0               |
| £65,000 - £69,999   | 9  | (1)             | 6       | 0               | 16               | 0               | 20      | 0               |
| £70,000 - £74,999   | 5  | 0               | 7       | (1)             | 18               | 0               | 13      | 0               |
| £75,000 - £79,999   | 4  | 0               | 4       | (1)             | 6                | 0               | 7       | 0               |
| £80,000 - £84,999   | 5  | 0               | 3       | 0               | 6                | 0               | 7       | 0               |
| £85,000 - £89,999   | 1  | 0               | 2       | 0               | 1                | 0               | 1       | 0               |
| £90,000 - £94,999   | 1  | 0               | 2       | 0               | 1                | 0               | 1       | 0               |
| £95,000 - £99,999   | 1  | 0               | 0       | 0               | 1                | 0               | 0       | 0               |
| £100,000 - £104,999 | 0  | 0               | 2       | 0               | 1                | 0               | 1       | 0               |
| £105,000 - £109,999 | 0  | 0               | 0       | 0               | 0                | 0               | 1       | 0               |
| £110,000 - £114,999 | 1  | 0               | 0       | 0               | 0                | 0               | 0       | 0               |
| £115,000 - £119,999 | 0  | 0               | 0       | 0               | 0                | 0               | 0       | 0               |
|                     | <b>123</b>                                 | <b>(7)</b>      | 132     | (8)             | <b>144</b>       | <b>0</b>        | 142     | (2)             |

### Disclosure of Remuneration for Senior Employees (Schools):-

Details of school employees in the above table earning over £100,000 during 2013/14 is listed below.

| Job Title                                 | Pensionable Pay 2013/14 | Pensionable Pay 2012/13 |
|---|-------------------------|-------------------------|
| Headteacher - Harlington Community School | £101,152                | £103,353                |

In the 2012/13 Statement of Accounts an additional Headteacher earning over £100k was disclosed. This school has subsequently acquired Academy status and thus is not included in the Council's financial statements.

# Notes to Main Financial Statements

## Disclosure of Remuneration for Senior Employees (LBH):-

The following disclosure sets out remuneration for staff included in tiers 1 and 2 of the Council's management structure for 2013/14

| Group                                | Job Title  | 2013/14         |          |              |                             |          | Total |
|--------------------------------------|--|-----------------|----------|--------------|-----------------------------|----------|-------|
|                                      |  | Pensionable Pay | Expenses | Compensation | EER's pension Contributions |          |       |
| Administration                       | Chief Executive and Corporate Director of Administration (F Beasley)           | £185,796        | £0       | £0           | £39,203                     | £224,999 |       |
|                                      | Head of Corporate Communications   | £77,220         | £0       | £0           | £16,403                     | £93,624  |       |
|                                      | Head of Democratic Services  | £96,582         | £0       | £0           | £20,379                     | £116,961 |       |
|                                      | Head of Human Resources  | £99,137         | £0       | £0           | £20,918                     | £120,055 |       |
|                                      | Head of Legal Services   | £115,025        | £0       | £0           | £24,270                     | £139,295 |       |
|                                      | Head of Policy Performance & Partnerships                                      | £82,358         | £0       | £0           | £17,378                     | £99,736  |       |
| Finance                              | Corporate Director of Finance (P Whaymand)                                     | £142,914        | £0       | £0           | £30,155                     | £173,069 |       |
|                                      | Deputy Director of Corporate Finance and Head of Operational Finance           | £94,489         | £0       | £0           | £19,937                     | £114,427 |       |
|                                      | Deputy Director of Strategic Finance   | £94,711         | £0       | £0           | £19,984                     | £114,695 |       |
|                                      | Head of Internal Audit   | £56,723         | £0       | £0           | £0                          | £56,723  |       |
| Residents                            | Head of Procurement  | £90,911         | £0       | £0           | £19,237                     | £110,148 |       |
|                                      | Head of Revenue and Benefits   | £76,970         | £0       | £0           | £16,241                     | £93,211  |       |
|                                      | Deputy Chief Executive and Corporate Director of Residents Services (J Palmer) | £178,884        | £0       | £0           | £0                          | £178,884 |       |
|                                      | Deputy Director Public Safety  | £119,237        | £0       | £0           | £25,159                     | £144,395 |       |
|                                      | Deputy Director ICT, Highways and Business Services                            | £128,466        | £0       | £0           | £27,106                     | £155,572 |       |
|                                      | Deputy Director Environmental Policy and Community Engagement                  | £121,135        | £0       | £0           | £25,559                     | £146,694 |       |
|                                      | Deputy Director Asset Management   | £100,004        | £0       | £0           | £21,101                     | £121,105 |       |
|                                      | Interim Director of Public Health  | £94,595         | £0       | £0           | £13,243                     | £107,838 |       |
|                                      | Interim Head of Education, Policy and Standards                                | £109,865        | £0       | £0           | £23,181                     | £133,046 |       |
|                                      | Head of Planning, Green Spaces and Culture                                     | £107,377        | £0       | £0           | £22,657                     | £130,034 |       |
| Adult Social Care                    | Head of Housing  | £123,825        | £0       | £0           | £26,127                     | £149,952 |       |
|                                      | Director Adult Social Care   | £92,965         | £0       | £0           | £18,578                     | £111,543 |       |
|                                      | Head of Early Intervention & Prevention  | £16,587         | £0       | £0           | £3,500                      | £20,087  |       |
|                                      | Head of Disability Services  | £14,037         | £0       | £0           | £2,962                      | £16,998  |       |
| Children and Young People's Services | Head of Adults Safeguarding Quality Partnership                                | £18,551         | £0       | £0           | £3,914                      | £22,466  |       |
|                                      | Director of Children and Young People's Service                                | £124,299        | £0       | £0           | £26,227                     | £150,526 |       |
| Leavers                              | Head of Early Intervention   | £74,458         | £0       | £0           | £15,711                     | £90,169  |       |
|                                      | Head of Childrens Safeguarding   | £59,836         | £0       | £0           | £12,625                     | £72,461  |       |
|                                      | Finance Manager SC&H   | £44,282         | £0       | £46,277      | £5,955                      | £96,514  |       |
| Leavers                              | Corporate Director SC&H (L Sanders)  | £37,453         | £0       | £124,955     | £7,903                      | £170,310 |       |

- 1 - Employment commenced 1 July 2013
- 2 - Employment commenced 1 April 2013
- 3 - Employment commenced 11 July 2013
- 4 - Employment ended 31 July 2013
- 5 - Employment ended 30 June 2013

- 6 - New post created, employee in post from 1 January 2014
- 7 - New post created, employee commenced 30 January 2014
- 8 - New post created, employee in post from 7 December 2013
- 9 - Employment ended 23 February 2014



# Notes to Main Financial Statements

## Disclosure of Remuneration for Senior Employees (LBH):-

The following disclosure sets out remuneration for staff included in tiers 1 and 2 of the Council's management structure for 2012/13

| Group                 | Job Title  | 2012/13         |          |              |                             |          | Total |
|-----------------------|--|-----------------|----------|--------------|-----------------------------|----------|-------|
|                       |  | Pensionable Pay | Expenses | Compensation | EER's pension Contributions |          |       |
| <b>CE</b>             | Chief Executive (F Beasley)  | £170,665        | £14      | £0           | £34,301                     | £204,980 |       |
| <b>Finance</b>        | Corporate Director of Finance (P Whaymand)                                     | £143,961        | £0       | £0           | £28,936                     | £172,897 |       |
|                       | Head of Corporate Finance  | £91,988         | £0       | £0           | £18,490                     | £110,478 |       |
|                       | Head of Revenues & Benefits  | £70,395         | £401     | £0           | £14,069                     | £84,865  |       |
|                       | Head of Procurement  | £31,724         | £0       | £0           | £6,377                      | £38,101  |       |
|                       | Head of Commissioning & Contracts  | £91,909         | £121     | £0           | £18,449                     | £110,479 |       |
|                       | Finance Manager Residents Services   | £87,273         | £0       | £0           | £17,485                     | £104,758 |       |
|                       | Finance Manager SC&H   | £84,594         | £0       | £0           | £17,003                     | £101,597 |       |
| <b>Residents</b>      | Deputy Chief Executive and Corporate Director of Residents Services (J Palmer) | £168,316        | £0       | £0           | £24,975                     | £193,291 |       |
|                       | Deputy Director Public Safety & Environment                                    | £109,658        | £0       | £0           | £22,041                     | £131,699 |       |
|                       | Deputy Director ICT, Highways and Business Services                            | £121,703        | £0       | £0           | £24,462                     | £146,165 |       |
|                       | Deputy Director Housing  | £128,466        | £0       | £0           | £25,822                     | £154,288 |       |
|                       | Head of Transportation, Planning Policy & Community Engagement                 | £119,008        | £108     | £0           | £23,843                     | £142,959 |       |
|                       | Head of Planning, Building Control, Sport & Green Spaces                       | £100,043        | £0       | £0           | £20,109                     | £120,152 |       |
|                       | Head of Corporate Property and Construction                                    | £92,658         | £0       | £0           | £18,390                     | £111,048 |       |
| <b>SC&amp;H</b>       | Corporate Director SC&H (L Sanders)  | £153,309        | £51      | £0           | £30,805                     | £184,165 |       |
|                       | Deputy Director Children & Families  | £113,567        | £0       | £0           | £22,796                     | £136,363 |       |
|                       | Interim Deputy Director Social Care and Health                                 | £147,272        | £0       | £0           | £0                          | £147,272 |       |
| <b>Administration</b> | Head of Corporate Communications   | £45,989         | £0       | £0           | £4,961                      | £50,950  |       |
|                       | Head of Democratic Services  | £94,185         | £0       | £0           | £18,931                     | £113,116 |       |
|                       | Head of Human Resources  | £89,956         | £26      | £0           | £18,076                     | £108,058 |       |
|                       | Head of Legal Services   | £112,560        | £0       | £0           | £22,624                     | £135,184 |       |
|                       | Head of Policy Performance & Partnerships                                      | £79,806         | £0       | £0           | £16,041                     | £95,847  |       |
| <b>Leavers</b>        | Chief Executive (H Dunnachie)  | £133,416        | £0       | £0           | £0                          | £133,416 |       |
|                       | Head of Internal Audit   | £110,803        | £0       | £0           | £12,823                     | £123,626 |       |
|                       | Head of Older People's Services  | £64,346         | £0       | £0           | £8,032                      | £72,378  |       |

Note: The Joint Director of Public Health is funded by both the Council and by Hillingdon PCT. The post holder's salary was paid by the PCT and the Council is charged 50% of the salary and associated on-costs. The total payable by the Council to the PCT during the year to 31 March 2013 was £114k.

- 1 - Employment commenced 16 November 2012
- 2 - Employment commenced 01 May 2012
- 3 - Employment commenced 28 August 2012
- 4 - Employment ended 12 December 2012
- 5 - Employment ended 15 January 2013
- 6 - Employment ended 25 September 2012

# Notes to Main Financial Statements

## 34. EXIT PACKAGES

The number of exit packages that have been agreed by the Council during the year are listed below. These packages include redundancy costs, pension contributions in terms of added years remuneration, ex gratia payments and other departure costs. The Council does not award added years pension contributions but pension strain is incurred where a pension is taken early without actuarial reduction and is a cost to the Council, not a direct payment to the employee.

| LBH EMPLOYEES  |   |   |   |  |                                |                                   |
|--|---|---|---|--|--------------------------------|-----------------------------------|
| Exit Package Cost Band (including special payments and Pension Strain Costs) | 2013/14 No. of LBH Employees with Exit Packages<br>Number | Number of Compulsory Redundancies<br>Number | Number of Other Departures Agreed<br>Number | Total Exit Payments to Employees<br>£000's | Pension Strain Costs<br>£000's | Total Exit Package Cost<br>£000's |
| £0 - £20,000   | 75  | 0   | 75  | 543  | 69                             | 612                               |
| £20,001 - £40,000  | 21  | 0   | 21  | 480  | 127                            | 607                               |
| £40,001 - £60,000  | 4   | 0   | 4   | 108  | 112                            | 220                               |
| £60,001 - £80,000  | 6   | 0   | 6   | 113  | 316                            | 429                               |
| £80,001 - £100,000   | 0   | 0   | 0   | 0  | 0                              | 0                                 |
| £100,001 - £150,000  | 2   | 0   | 2   | 41   | 216                            | 257                               |
|  | <b>108</b>  | <b>0</b>                                    | <b>108</b>                                  | <b>1,285</b>                               | <b>840</b>                     | <b>2,125</b>                      |

| LBH EMPLOYEES                                       |   |   |   |  |                                |                                   |
|---|---|---|---|--|--------------------------------|-----------------------------------|
| Exit Package Cost Band (including special payments) | 2012/13 No. of LBH Employees with Exit Packages<br>Number | Number of Compulsory Redundancies<br>Number | Number of Other Departures Agreed<br>Number | Total Exit Payments to Employees<br>£000's | Pension Strain Costs<br>£000's | Total Exit Package Cost<br>£000's |
| £0 - £20,000  | 94  | 0   | 94  | 691  | 549                            | 1,240                             |
| £20,001 - £40,000                                   | 17  | 0   | 17  | 465  | 426                            | 891                               |
| £40,001 - £60,000                                   | 0   | 0   | 0   | 0  | 0                              | 0                                 |
| £60,001 - £80,000                                   | 0   | 0   | 0   | 0  | 0                              | 0                                 |
| £80,001 - £100,000                                  | 0   | 0   | 0   | 0  | 0                              | 0                                 |
| £100,001 - £150,000                                 | 0   | 0   | 0   | 0  | 0                              | 0                                 |
|   | <b>111</b>  | <b>0</b>                                    | <b>111</b>                                  | <b>1,156</b>                               | <b>975</b>                     | <b>2,131</b>                      |

| SCHOOL EMPLOYEES                                    |   |   |   |  |                                |                                   |
|---|---|---|---|--|--------------------------------|-----------------------------------|
| Exit Package Cost Band (including special payments) | 2013/14 No. of Schools Employees with Exit Packages<br>Number | Number of Compulsory Redundancies<br>Number | Number of Other Departures Agreed<br>Number | Total Exit Payments to Employees<br>£000's | Pension Strain Costs<br>£000's | Total Exit Package Cost<br>£000's |
| £0 - £20,000  | 21  | 7   | 14  | 123  | 7                              | 130                               |
| £20,001 - £40,000                                   | 4   | 1   | 3   | 103  | 12                             | 115                               |
| £40,001 - £60,000                                   | 0   | 0   | 0   | 0  | 0                              | 0                                 |
|   | <b>25</b>   | <b>8</b>                                    | <b>17</b>                                   | <b>226</b>                                 | <b>19</b>                      | <b>245</b>                        |

| SCHOOL EMPLOYEES                                    |   |   |   |  |                                |                                   |
|---|---|---|---|--|--------------------------------|-----------------------------------|
| Exit Package Cost Band (including special payments) | 2012/13 No. of Schools Employees with Exit Packages<br>Number | Number of Compulsory Redundancies<br>Number | Number of Other Departures Agreed<br>Number | Total Exit Payments to Employees<br>£000's | Pension Strain Costs<br>£000's | Total Exit Package Cost<br>£000's |
| £0 - £20,000  | 9   | 0   | 9   | 54   | 0                              | 54                                |
| £20,001 - £40,000                                   | 0   | 0   | 0   | 0  | 0                              | 0                                 |
| £40,001 - £60,000                                   | 0   | 0   | 0   | 0  | 0                              | 0                                 |
|   | <b>9</b>  | <b>0</b>                                    | <b>9</b>                                    | <b>54</b>                                  | <b>0</b>                       | <b>54</b>                         |

# Notes to Main Financial Statements

## 35. DEDICATED SCHOOLS GRANT

The Dedicated Schools Grant has been credited to Education and Children's Services in the Comprehensive Income and Expenditure Statement.

The Council's expenditure on schools is funded by grant monies provided by the Department for Education through the Dedicated Schools Grant (DSG). DSG is ring-fenced and can only be applied to meet expenditure properly included in the Schools Budgets as defined in the School and Early Years Finance (England) Regulations 2012. The Schools Budget includes elements for a restricted range of services provided on an council-wide basis and for the Individual Schools Budget (ISB), which is divided into a budget share for each maintained school.

Details of the deployment of the DSG receivable for 2013/14 are as follows:

| <b>Schools Budget Funded by Dedicated Schools Grant</b> |   |   |                         |
|---|---|---|-------------------------|
|   | <b>Central Expenditure<br/>£000's</b>           | <b>Individual Schools Budget<br/>£000's</b> | <b>Total<br/>£000's</b> |
| A   | Final DSG for 2013/14 before academy recoupment |   | 231,848                 |
| B   | Academy figure recouped for 2013/14             |   | (86,477)                |
| C   | Total DSG after academy recoupment for 2013/14  |   | 145,371                 |
| D   | Brought-forward from 2012/13                    |   | 709                     |
| E   | Carry-forward to 2014/15 agreed in advance      |   | (709)                   |
| F   | Agreed initial budgeted distribution in 2012/13 |   |                         |
|   | 29,551  | 115,820                                     | 145,371                 |
| G   | In year adjustments                             |   |                         |
|   | 1,629   | (1,629)                                     | 0                       |
| H   | Final budgeted distribution for 2013/14         |   |                         |
|   | <b>31,180</b>                                   | <b>114,191</b>                              | <b>145,371</b>          |
| I   | Less actual central expenditure                 |   |                         |
|   | 28,108  |   | 28,108                  |
| J   | Less actual ISB deployed to schools             |   |                         |
|   |   | 114,191                                     | 114,191                 |
| K   | Plus Local Authority contribution for 2013/14   |   |                         |
|   | 0   | 0   | 0                       |
| L   | Carry-forward to 2014/15                        |   |                         |
|   | <b>(3,072)</b>                                  | <b>(0)</b>                                  | <b>(3,072)</b>          |

A: DSG figure as issued by the Department in July 2013.

B: Figure recouped from the authority in 2013/14 by the DfE for the conversion of maintained schools into academies.

C: Total figure after DfE academy recoupment for 2013/14.

D: Figure brought forward from 2012/13 as agreed with the Department. Details of this exercise were contained in the Financial Monitoring Team's email of 18 May 2013.

E: Any amount which the authority decided after consultation with the schools forum to carry forward to 2014/15 rather than distribute in 2013/14 – this may be the difference between estimated and final DSG for 2013/14, or a figure (positive or negative) brought forward from 2012/13 which the authority is carrying forward again.

F: Budgeted distribution of DSG, adjusted for carry-forward, as agreed with the schools forum.

G: Changes to the initial distribution, for example, adjustments for exclusions.

H: Budgeted distribution of DSG as at the end of the financial year.

I: Actual amount of central expenditure items in 2013/14 – amounts not actually spent, e.g. money that is moved into earmarked reserves, should be included in items L20 or L21 as carried forward.

J: Amount of ISB actually distributed to schools (ISB is regarded for DSG purposes as spent by the authority once it is deployed to schools' budget shares).

K: Any contribution from the local authority in 2013/14 which will have the effect of substituting for DSG in funding the Schools Budget. Do not include any change in balances held by schools as they are not to be recorded in this note.

L: Carry-forward to 2014/15

For central expenditure, difference between final budgeted distribution of DSG (item H12) and actual expenditure (item I15), plus any local authority contribution (item K17).

For ISB, difference between final budgeted distribution (item H13) and amount actually deployed to schools (item J16), plus any local authority contribution (item K18).

Total is carry-forward on central expenditure (item L20) plus carry-forward on ISB (item L21) plus/ minus any carry-forward to 2014/15 already agreed (item E5).

# Notes to Main Financial Statements

## 36. GRANT INCOME

The Council credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement:

|  | 2013/14<br>£000's | 2012/13<br>£000's |
|--|-------------------|-------------------|
| <b>Revenue Grant Income Credited to Taxation and Non Specific Grant Income</b> |                   |                   |
| Revenue Support Grant  | 62,007            | 1,531             |
| Preventing Homelessness  | 0                 | 768               |
| Early Intervention Grant   | 0                 | 11,943            |
| Education Services Grant   | 3,712             | 0                 |
| Council Tax Freeze Grant   | 1,119             | 2,789             |
| Learning Disability & Health Reform Grant                                      | 0                 | 5,937             |
| Housing & Council Tax Benefit Subsidy Admin Grant                              | 2,069             | 2,265             |
| New Homes Bonus  | 5,673             | 2,969             |
| Other Grants   | 2,526             | 681               |
| <b>Total Non Specific Revenue Grants</b>                                       | <b>77,106</b>     | <b>28,883</b>     |
| <b>Revenue Grant Income Credited to Services</b>                               |                   |                   |
| <u>Department for Education</u>  |                   |                   |
| Dedicated Schools Grant (DSG)  | 145,533           | 148,213           |
| Pupil Premium  | 5,357             | 4,232             |
| Sixth Form & Adult Learning Grants   | 3,013             | 3,936             |
| <u>Department for Communities and Local Government:</u>                        |                   |                   |
| Troubled Families Grant  | 100               | 634               |
| NNDR cost of collection  | 598               | 602               |
| <u>Department of Health</u>  |                   |                   |
| Public Health Grant  | 15,281            | 0                 |
| Section 256 Agreement Funding  | 3,726             | 2,610             |
| <u>Arts Council</u>  |                   |                   |
| Music Education Hub  | 331               | 257               |
| <u>Department for Work and Pensions:</u>                                       |                   |                   |
| Housing & Council Tax Benefit Subsidy  | 147,825           | 169,030           |
| <u>Home Office:</u>  |                   |                   |
| Asylum Funding   | 5,463             | 5,952             |
| Other Grants   | 19,571            | 20,449            |
| <b>Total Grants Credited to Services</b>                                       | <b>346,798</b>    | <b>355,915</b>    |
| <b>Total Revenue Grant Income</b>  | <b>423,904</b>    | <b>384,798</b>    |

# Notes to Main Financial Statements

|  | 2013/14<br>£000's | 2012/13<br>£000's |
|--|-------------------|-------------------|
| <b>Capital Grant Income credited to the Comprehensive Income and Expenditure Statement</b> |                   |                   |
| Disabled Facilities Grant  | 1,627             | 1,763             |
| Sports England Grant   | 25                | 0                 |
| Education Funding Agency   | 32,208            | 19,846            |
| Transport for London   | 4,121             | 2,098             |
| West London Housing Grant  | 75                | 132               |
| HRA Pipeline Grant   | 103               | 0                 |
| Outer London Fund  | 1,955             | 450               |
| DH Community Capacity  | 560               | 532               |
| EA Capital Waste Grant   | 250               | 0                 |
| DCLG Food Collection Grant   | 260               | 0                 |
| DECC Fund  | 100               | 0                 |
| DH Dementia Friendly Grant   | 94                | 0                 |
| Environment Agency Mitigation Work   | 175               | 0                 |
| <b>Total Capital Grant Income</b>  | <b>41,553</b>     | <b>24,821</b>     |
| Schools Capital Contributions  | 1,509             | 1,622             |
| S106 Contributions   | 8,228             | 2,492             |
| Other Capital Contributions  | 381               | 88                |
| <b>Total Capital Grants and Contributions Received</b>                                     | <b>51,671</b>     | <b>29,023</b>     |

Of the capital grant income applied to the Comprehensive income and expenditure account within Taxation and Non Specific Grant income £41,494k was used to fund the capital programme, and £59k has been transferred to the Capital Grants Unapplied Reserve for future use.

In 2014/15 some of the grant income above credited to Taxation and Non specific Income was used to fund Revenue Funded Capital under Statute (REFCUS) assets where the expenditure has been charged to the relevant service lines. Expenditure on REFCUS assets amounted to £11,298k and funding came from various sources as well as grant income.

The Council has received a number of grants and contributions that have yet to be recognised as income as they have conditions attached to them that will require the monies or property to be returned to the awarding body should condition for use fail to be met. Revenue grants with these conditions are included within Creditors under the amounts owed to Government Departments. The balances for Capital grants at the year-end are as follows:

|   | 2013/14<br>£000's | 2012/13<br>£000's |
|---|-------------------|-------------------|
| <b>Capital Grant &amp; Contribution Receipts in Advance</b> |                   |                   |
| EFA Capital Grants  | 1,360             | 749               |
| HRA Pipeline Grant  | 0                 | 301               |
| Waste Grant   | 0                 | 370               |
| S106  | 8,926             | 13,458            |
| Other   | 6                 | 102               |
| <b>Total Grants Received in Advance</b>                     | <b>10,292</b>     | <b>14,980</b>     |

# Notes to Main Financial Statements

## 37. CAPITAL EXPENDITURE AND CAPITAL FINANCING

The total amount of capital expenditure incurred in the year is shown in the table below, together with the resources that have been used to finance it. Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the Council, the expenditure results in an increase in the Capital Financing Requirement (CFR), a measure of the capital expenditure incurred historically by the Council that has yet to be financed. The CFR is analysed in this note.

|   | 2013/14<br>£000's | 2012/13<br>£000's |
|---|-------------------|-------------------|
| <b>Opening Capital Financing Requirement</b>                | 408,955           | 416,958           |
| <b>Capital investment</b>                                   |                   |                   |
| Property, Plant and Equipment                               | 79,617            | 42,060            |
| Intangible Assets   | 271               | 137               |
| Revenue Expenditure Funded from Capital Under Statute       | 11,298            | 6,785             |
| <b>Sources of finance</b>                                   |                   |                   |
| Capital receipts  | (8,922)           | (7,457)           |
| Government grants and other contributions                   | (71,485)          | (34,618)          |
| <b>Sums set aside from revenue:</b>                         |                   |                   |
| Direct revenue contributions                                | (1,999)           | (2,694)           |
| Minimum Revenue Provision (MRP) / Loans Fund Principal      | (14,555)          | (11,820)          |
| Other Revenue Provision                                     | (267)             | (396)             |
| <b>Closing Capital Financing Requirement</b>                | <b>402,913</b>    | <b>408,955</b>    |
| <b>Explanation of movements in year</b>                     |                   |                   |
| (Decrease)/Increase in underlying need to borrow :          |                   |                   |
| - unsupported by Government financial assistance            | (8,779)           | (9,003)           |
| <b>(Decrease)/Increase in Capital Financing Requirement</b> | <b>(6,042)</b>    | <b>(8,003)</b>    |

The Capital Financing Requirement (CFR) is a measure of the Council's underlying need to borrow for capital purposes. It does not represent the Council's actual borrowing which is determined following consideration of other balances such as reserves, provisions, working capital and timing differences of cash inflows and outflows.

# Notes to Main Financial Statements

## 38. LEASES

In financial years prior to 2013/14 the Council acquired a number of vehicles, a private finance initiative (PFI) school and a contract for superloos under finance leases with the risks and rewards associated with ownership of such assets having transferred to the Council. Assets acquired under finance leases are carried as Property, Plant and Equipment in the Balance Sheet.

The Council is committed to making minimum payments under these leases comprising settlement of the long term liability for the interest in the asset and finance costs that will be payable by the Council in future years whilst the liability remains outstanding.

A number of vehicles are also held under operating leases, for which regular rental payments are made but the risks and rewards of ownership of such asset do not lie with the Council.

The future payments relating to both finance and operating leases held by the Council are made up of the following amounts:

### Finance Leases - Lessee

| Plant, Property and Equipment<br>Outstanding obligations on 31 March | Finance Lease Liabilities |                   | Minimum Lease Payments |                   |
|--|---------------------------|-------------------|------------------------|-------------------|
|  | 2013/14<br>£000's         | 2012/13<br>£000's | 2013/14<br>£000's      | 2012/13<br>£000's |
| Within 1 year (held in current liabilities)                          | 260                       | 263               | 1,139                  | 1,205             |
| 2 - 5 years  | 1,010                     | 1,021             | 3,778                  | 4,097             |
| More than 5 years  | 1,201                     | 1,452             | 2,513                  | 3,333             |
| Total costs payable in future years                                  | 2,211                     | 2,473             | 6,291                  | 7,430             |
| <b>Total future lease payments</b>                                   | <b>2,471</b>              | <b>2,736</b>      | <b>7,430</b>           | <b>8,635</b>      |

### Operating Leases - Lessee

| Plant, Property and Equipment<br>Outstanding obligations on 31 March | Operating Lease   |                   |
|--|-------------------|-------------------|
|  | 2013/14<br>£000's | 2012/13<br>£000's |
| Within 1 year  | 253               | 329               |
| 2 - 5 years  | 278               | 526               |
| More than 5 years  | 0                 | 5                 |
| <b>Total future lease payments</b>                                   | <b>531</b>        | <b>860</b>        |

Operating Lease obligations have been updated to include commitments held by Hillingdon maintained Schools as well as those held by the Council. Operating lease expenditure of £342k (£313k 12/13) is included within Cost of Services in the Comprehensive Income and Expenditure Statement.

### Operating Leases - Lessor

The council leases out property under operating leases for the following purposes:

- for the provision of community services, such a sports facilities and community centres
- for economic development purposes to provide suitable affordable accommodation for local businesses

The future minimum lease payments receivable under non-cancellable leases in future years are:

| Future Minimum Lease Payments:     | Operating Lease   |                   |
|------------------------------------|-------------------|-------------------|
|                                    | 2013/14<br>£000's | 2012/13<br>£000's |
| Within 1 year                      | 1,161             | 714               |
| 2 - 5 years                        | 3,555             | 2,549             |
| More than 5 years                  | 10,145            | 10,232            |
| <b>Total future lease payments</b> | <b>14,861</b>     | <b>13,495</b>     |

The minimum lease payments receivable do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews.

# Notes to Main Financial Statements

## 39. LONG TERM CONTRACTS AND PRIVATE FINANCE INITIATIVE

The Council has entered into a number of Long Term Contracts, committing itself to revenue expenditure over future years. Contracts which have fixed annual sums over £1,000k and over 4 years in length are disclosed below:

| Supplier                | Expenditure Reason<br>£000's   | Contract Value<br>Per Annum<br>£000's | Contract Dates |            |
|-------------------------|--------------------------------|---------------------------------------|----------------|------------|
|                         |                                |                                       | Start          | Expire     |
| Mitie Property Services | Facilities Management Services | 3,438                                 | 01/11/2008     | 31/10/2015 |

**Mitie Property Services** - The Council has entered into a Facilities Management contract with Mitie for the provision of cleaning, caretaking, and building maintenance for certain Council properties.

The following Long Term Contracts are not fixed in nature, however the annual sum for 2013/14 was over £1,000k:

**Northgate Information Solutions**  
**Liberata UK Ltd**

### Private Finance Initiative (PFI)

In December 1998 the Council entered into a 25 year contract with a private sector partner, Jarvis (Barnhill) Limited, to build and provide facilities management at Barnhill Community High School under a private finance initiative (PFI) arrangement. The school opened in September 1999. In 2010 the parent company Jarvis PLC went into administration and management of the facility was transferred to Johnson Workplace Management Ltd without impacting the day to day operation of the school. In August 2013 Johnson Workplace Management Ltd were acquired by Bellrock Facilities Management who are now responsible for the management of the contract. In 2013/14 the Council paid principal of £249k, interest of £868k and service charges of £2,307k. Current forecasts of future payments, assuming satisfactory performance over the remaining 10 years of the contract, are set out below. As payments to the contractor are index linked, these figures are based on current indexation rates and may vary if rates alter.

|                         | Payment for Services<br>£000's | Reimbursement of Capital Expenditure<br>£000's | Interest<br>£000's | Total<br>£000's |
|-------------------------|--------------------------------|--|--------------------|-----------------|
| Within 1 year (2014/15) | 2,470                          | 245  | 806                | 3,521           |
| 2 - 5 years             | 11,666                         | 942  | 2,506              | 15,114          |
| More than 5 years       | 19,323                         | 986  | 1,125              | 21,434          |
| <b>Total</b>            | <b>33,459</b>                  | <b>2,173</b>                                   | <b>4,437</b>       | <b>40,069</b>   |

Barnhill Community High School transferred to academy status resulting in the removal of the property from the Council's asset register, however the liability will remain in place until it is extinguished in 2023/24. The Council will have no responsibility after this date.

The charge for the current year was £249k matching the principal repayment. The outstanding liability of the capital value at 31 March 2014 is £2,173k, of this £245k is due within a year and therefore included in creditors and the remaining £1,928k is shown as a deferred liability.



# Notes to Main Financial Statements

## 40. CONTINGENT LIABILITIES AND ASSETS

### Contracts

- There are possible legal proceedings being threatened regarding an alleged breach of contract. The claim could amount to £200k but it is denied and will be defended.
- The Council has received letters threatening claims against the Council over two potential breaches of contract. These claims may amount to £1,000k and £300k. The Council is looking to bring a counter-claim against the complainant in relation to both matters.

### Care Group

In February 2011 a resident was placed in a private hospital operated by a Care Group. The Council was made aware of costs relating to substantial monitoring of the patient; however the Council did not agree to pay such expenses. The additional monitoring was administered for over 2 years and the costs currently amount to over £200k. The Council will defend any claims.

## 41. EVENTS AFTER THE BALANCE SHEET DATE

As a result of the schools expansion capital programme, three of the Council's school buildings have since been demolished to make way for new school buildings on the sites. At the 31st March 2014, all three schools were still operational and were held on the Council's balance sheet at a carrying value of £3.1million after accelerated depreciated was applied to reflect the reduced life of the buildings. The children were decanted out of the schools into new buildings on the sites between April and July. During the programme to provide extra schools places within the borough all Councils schools continued to remain open.

Following the approval of applications for academy status, three schools become academies during 2014/15, it is possible other schools will also covert within the financial year. Under academy status, existing Community schools would no longer form part of the Council's accounts and hence will result in significant movements in income, expenditure, schools reserves and current assets from those included in the 2013/14 Statement of Accounts. These schools reported income and expenditure in 2013/14 of £13,489k and £13,167k respectively and held reserves and corresponding current assets of £1,059k at 31 March 2014. In addition the net book value of £41,521k relating to school buildings of the known transferring schools will be removed from the Council's long term assets for the 2014/15 accounts once their conversion is completed.

## 42. SUMMARY OF TREASURY MANAGEMENT POLICY

The Council defines its treasury management activities as the management of the organisation's investments and cash flows, its banking, money market and capital market transactions, the effective control of risks associated with those activities to achieve optimum performance consistent with those risks.

The successful identification, monitoring and control of risks are the prime criteria by which the effectiveness of its treasury management activities will be measured. The Council acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives.

The Council's underlying need to borrow for capital purposes is measured by reference to the Capital Financing Requirement which represents the cumulative capital expenditure of the council that has not been financed from internal resources (see note 37).

The Council maintains a flexible policy regarding debt rescheduling and the market is continuously monitored for opportunities to redeem or restructure debt.

The Council's policy is to invest its surplus funds prudently and the investment priorities are: security of invested capital, liquidity of the invested capital and an optimum yield which is commensurate with security and liquidity. The speculative procedure of borrowing purely in order to invest is unlawful.

# Notes to Main Financial Statements

## 43. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

The Council has adopted CIPFA's Revised Code of Practice on Treasury Management and complies with the Revised Prudential Code of Capital Finance for Local Authorities.

As part of the adoption of the Treasury Management Code, the Council approves a Treasury Management Strategy before the commencement of each financial year. The strategy sets out the parameters for the management of risks associated with financial instruments. The Council also produces Treasury Management Practices specifying the practical arrangements to be followed to manage these risks.

The Treasury Management Strategy includes an Annual Investment Strategy in compliance with CLG Investment Guidance for Local Authorities. This guidance emphasises that priority be given to security and liquidity rather than yield. The Council's strategy together with its Treasury Management Practices are based on seeking the highest rate of return consistent with the proper levels of security and liquidity.

The Council's activities exposes it to a variety of financial risks:

- credit risk - the possibility that other parties might fail to pay amounts due to the Council
- liquidity risk - the possibility that the Council might not have funds available to meet its commitments to make payments
- market risk - the possibility that financial loss might arise for the Council as a result of changes in such measures as interest rates and stock market movements.

### Credit Risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the Council's customers. This risk is minimised as outlined in the Annual Investment Strategy, which states that deposits are not made with financial institutions unless they meet identified minimum credit criteria, as laid down by Fitch, S&P and Moody's Ratings Services. The Annual Investment Strategy also sets maximum sums that can be invested with any financial institution. The credit criteria applicable during 2013/14 in respect of financial assets held by the Council are as detailed below:

Long term minimum: A- (Fitch); A3 (Moody's); A- (S&P)

The Council also considers other information such as corporate developments, market sentiment towards investment counterparties and other sources of intelligence before making deposits.

Customers for goods and services are assessed, taking into account their financial position, past experience and other factors, with individual credit limits being set in accordance with internal ratings in accordance with parameters set by the Council.

The Council's maximum exposure to credit risk in relation to its investments in banks and building societies cannot be assessed generally as the risk of any institution failing to make interest payments or repay the principal sum will be specific to each individual institution. Recent experience has shown that it is rare, but possible, for such entities to be unable to meet their commitments. The risk of non-recovery applies to all of the Council's deposits.

# Notes to Main Financial Statements

The table below summarises the amortised value of the Council's investment portfolio at 31 March 2014, and demonstrates that all investments were made in line with the Council's approved credit rating criterion.

| Outstanding Investments as at 31 March 2014  |  |   |                         |              |              |                |                |
|--|--|---|-------------------------|--------------|--------------|----------------|----------------|
|  | Fitch Rating or lowest equivalent at time of Deposit | Fitch Rating or lowest equivalent 31 March 2014 | Maturity of Investments |              |              |                | Total          |
|  |  |   | 0-3 Months              | 3-6 Months   | 6-12 Months  | Over 12 Months |                |
|  |  |   | £000's                  | £000's       | £000's       | £000's         | £000's         |
| <b>UK Banks &amp; Building Societies</b>   |  |   |                         |              |              |                |                |
| Bank of Scotland   | A  | A   | 10,504                  | 0            | 0            | 0              | 10,504         |
| Barclays   | A  | A   | 9,001                   | 0            | 0            | 0              | 9,001          |
| HSBC   | AA-  | AA-   | 10,905                  | 0            | 0            | 0              | 10,905         |
| Lloyds   | A  | A   | 500                     | 500          | 0            | 0              | 1,000          |
| Nationwide   | A  | A   | 5,001                   | 0            | 0            | 0              | 5,001          |
| Royal Bank of Scotland   | A-   | BB+   | 20                      | 0            | 0            | 0              | 20             |
| Standard Chartered   | AA-  | AA-   | 3,502                   | 0            | 0            | 0              | 3,502          |
|  |  |   | <b>39,433</b>           | <b>500</b>   | <b>0</b>     | <b>0</b>       | <b>39,933</b>  |
| <b>Icelandic Banks</b>   |  |   |                         |              |              |                |                |
| Heritable Bank   | A  | In default/Credit Rating Withdrawn              | 0                       | 0            | 145          | 0              | 145            |
|  |  |   | <b>0</b>                | <b>0</b>     | <b>145</b>   | <b>0</b>       | <b>145</b>     |
| <b>Government &amp; Local Authorities</b>  |  |   |                         |              |              |                |                |
| Birmingham CC  | AA+  | AA+   | 5,001                   | 0            | 0            | 0              | 5,001          |
| Blaenau Gwent CBC  | AA+  | AA+   | 3,002                   | 0            | 0            | 0              | 3,002          |
| Lancashire CC  | AA   | AA  | 5,012                   | 0            | 0            | 0              | 5,012          |
| Mid Suffolk C  | AA+  | AA+   | 3,002                   | 0            | 0            | 0              | 3,002          |
| Redditch BC  | AA+  | AA+   | 3,002                   | 0            | 0            | 0              | 3,002          |
| Salford CC   | AA+  | AA+   | 0                       | 0            | 8,001        | 0              | 8,001          |
| Woking BC  | A  | A   | 0                       | 2,000        | 0            | 0              | 2,000          |
| Wolverhampton CC   | AA+  | AA+   | 0                       | 0            | 0            | 7,001          | 7,001          |
|  |  |   | <b>19,019</b>           | <b>2,000</b> | <b>8,001</b> | <b>7,001</b>   | <b>36,021</b>  |
| <b>Money Market Funds</b>  |  |   |                         |              |              |                |                |
| All funds held explicit money market fund ratings of AAA, with at least one of the rating agencies |  |   | <b>25,508</b>           | <b>0</b>     | <b>0</b>     | <b>0</b>       | <b>25,508</b>  |
| <b>Total Investments</b>   |  |   | <b>83,960</b>           | <b>2,500</b> | <b>8,146</b> | <b>7,001</b>   | <b>101,607</b> |

\* Standard Chartered CD scheduled maturity date is 26 August 2014, however can be sold on the secondary market on a same day basis

The information above provides both current and at time of deposit credit ratings of institutions and durations of outstanding investments held by the Council. At the time investments were placed, the credit rating criteria were met. The disclosures above are given at their amortised value.

## Credit Rating Definitions

| Long Term |                          | Money Market Funds  |
|-----------|--------------------------|---|
| AAA       | Highest credit quality   | Fitch: AAAmmf : Extremely strong capacity to achieve fund's investment objective of preserving principal and providing shareholder liquidity through limiting credit, market, and liquidity risk. |
| AA        | Very high credit quality |   |
| A         | High credit quality      | Moody's: Aaa Money Market Funds are judged to be of an investment quality similar to Aaa-rated fixed income obligations.  |
| BBB       | Good credit quality      |   |
| BB        | Speculative              | S&P: AAAm has extremely strong capacity to maintain principal stability and to limit exposure to principal losses due to credit, market and/or liquidity risks.                                   |
| B         | Highly speculative       |   |
| CCC       | Default possibility      |   |
| CC        | Default imminent         |   |
| D         | Defaulted                |   |

# Notes to Main Financial Statements

## Aged Analysis of other Financial Instruments

| Other Financial Instruments | Not Overdue | Past Due   |            |             |                | Total     |
|-----------------------------|-------------|------------|------------|-------------|----------------|-----------|
|                             |             | 1-3 Months | 3-6 Months | 6-12 Months | Over 12 Months |           |
|                             |             | £000's     | £000's     | £000's      | £000's         |           |
| Available for Sale          | 92          | 0          | 0          | 0           | 0              | 92        |
| <b>Total</b>                | <b>92</b>   | <b>0</b>   | <b>0</b>   | <b>0</b>    | <b>0</b>       | <b>92</b> |

Trade Debtors of £6,540k are accounted for inclusive of Provision for doubtful debt where there is a risk of non payments.

## Borrowing

The policy on borrowing is to spread exposure between Public Works Loans Board (PWLB) and market sources. This enables the Council to avail itself of rescheduling facilities offered by PWLB and also to obtain favourable rates, when offered by the market.

|                  | 31 March 2014 |               |                | 31 March 2013 |               |                |
|------------------|---------------|---------------|----------------|---------------|---------------|----------------|
|                  | PWLB £000's   | Market £000's | Total £000's   | PWLB £000's   | Market £000's | Total £000's   |
| Nominal Value    | 288,227       | 48,000        | <b>336,227</b> | 298,504       | 48,000        | <b>346,504</b> |
| Premium          | (3,306)       | 0             | <b>(3,306)</b> | (3,331)       | 0             | <b>(3,331)</b> |
| Accrued Interest | 810           | 617           | <b>1,427</b>   | 897           | 616           | <b>1,513</b>   |
| Amortised Value  | 285,731       | 48,617        | <b>334,348</b> | 296,070       | 48,616        | <b>344,686</b> |

## Liquidity Risk

Liquidity risk is the risk that cash will not be available when it is required. This can jeopardise the ability of the Council to carry out its daily functions or disrupt these from being carried out in the most cost effective manner. To prevent or minimise this risk, the Council has a comprehensive cash flow management system that seeks to ensure that cash is available as needed. If unexpected movements occur, the Council has ready access to borrowings from money markets and the PWLB. There is no significant risk that the Council will be unable to raise finance to meet its commitments.

Instead the risk to which the Council is exposed is when loans or other forms of capital financing mature, they cannot be refinanced where necessary on terms that reflect the assumptions made in formulating revenue and capital budgets. The policy on debt redemption is to maintain a fairly stable fall out of debt required to be refinanced each year. To achieve this, targets are set within the Treasury Management Strategy which limit the maximum amount of debt maturities within specific time periods. This spreads the risk of interest rate exposure so all debt is not subject to renewal at the same time. The maturity analysis of financial liabilities is as follows:

|                                   | Limit for Debt Maturity | Actual % Debt Maturity 31 March 2014 | 31 March 2014 £000's | 31 March 2013 £000's |
|-----------------------------------|-------------------------|--------------------------------------|----------------------|----------------------|
| Less than 1 year                  | 25%                     | 3.20%                                | 10,705               | 11,791               |
| Between 1 and less than 2 years   | 25%                     | 3.67%                                | 12,278               | 9,278                |
| Between 2 and less than 5 years   | 50%                     | 12.51%                               | 41,833               | 36,833               |
| Between 5 and less than 10 years  | 75%                     | 27.42%                               | 91,667               | 105,444              |
| Between 10 and less than 20 years | 100%                    | 17.95%                               | 60,000               | 54,000               |
| Between 20 and less than 30 years | 100%                    | 13.33%                               | 44,571               | 54,071               |
| Between 30 and less than 40 years | 100%                    | 1.50%                                | 5,000                | 0                    |
| Between 40 and less than 50 years | 100%                    | 6.07%                                | 20,294               | 25,269               |
| Over 50 years                     | 100%                    | 14.36%                               | 48,000               | 48,000               |
| <b>Total</b>                      |                         |                                      | <b>334,348</b>       | <b>344,686</b>       |

In addition to debt that falls out naturally in any year, the Council can choose to redeem debt early as part of its overall debt management policy. This assists in restructuring the Council's debt portfolio and although in the short term a premium charge may be incurred, longer-term finance costs may be significantly reduced.

# Notes to Main Financial Statements

## Market Risk

Interest Rate Risk: The Council is exposed to risks arising from movements in interest rates. The Treasury Management Strategy aims to mitigate these risks by setting an upper limit of 50% on external debt that can be subject to variable interest rates. This strategy is periodically reviewed and adapted to reflect changing economic circumstances in light of actual movements in interest rates. Investments are also subject to movements in interest rates. As investments are made at fixed rates, but for shorter periods of time, there is greater exposure to interest rate movements. This risk is balanced against actions taken to mitigate credit risk.

Movements in interest rates can impact the Council in several ways. For instance, a rise in interest rates would have the following effects:

- borrowings at variable rates – the interest expense charged to the Surplus or Deficit on the Provision of Services will rise
- borrowings at fixed rates – the fair value of the liabilities will fall
- investments at variable rates – the interest income credited to the Surplus or Deficit on the Provision of Services will rise
- investments at fixed rates – the fair value of the assets will fall

Borrowings are not carried at fair value, so nominal gains and losses on fixed rate borrowings would not impact on the Surplus or Deficit on the Provision of Services or Other Comprehensive Income and Expenditure. However, changes in interest payable and receivable on variable rate borrowings and investments will be posted to the Surplus or Deficit on the Provision of Services and affect the General Fund Balance.

If interest rates had been 1% higher (with all other variables held constant) the financial effect would be:

|  | £000's       |
|--|--------------|
| Increase in interest payable on variable rate borrowings   | 500          |
| Increase in interest receivable on variable rate investments   | (1,316)      |
| <b>Impact on Surplus or Deficit on the Provision of Services</b>   | <b>(816)</b> |
| Share of overall impact credited to the HRA  | (150)        |
| Decrease in fair value of fixed rate deposits (no impact on the Surplus or Deficit on the Provision of Services or Other Comprehensive Income and Expenditure)               | (116)        |
| Decrease in fair value of fixed rate borrowings liabilities (no impact on the Surplus or Deficit on the Provision of Services or Other Comprehensive Income and Expenditure) | (24,769)     |

The impact of a 1% fall in interest rates would be as above but with the movements being reversed. These assumptions are based on the same methodology as used in the "Fair Value" disclosure note.

**Price Risk:** The Council does not generally invest in equity shares or bonds but it does hold historic balances in its accounts. The Council is consequently exposed to losses arising from movements in the prices of these shares and bonds. As these holdings have arisen from a donation, the Council is not in a position to limit its exposure to price movements by diversifying its portfolio.

The £92k holdings are all classified as 'Available for Sale' and it is expected will not be voluntarily disposed, hence all movements in price will be shown in the Available for Sale Reserve with no impact on gains and losses recognised in Other Comprehensive Income and Expenditure.

**Foreign Exchange Risk:** All the financial assets and liabilities are denominated in GBP and thus have no exposure to loss arising from movements in exchange rates.

## Financial Liabilities

The majority of borrowing made by the Council is sourced from the PWLB. (As at 31 March 2014 £239,227k was at fixed rates and £49,000k at variable rates). Borrowing at fixed rates enables the Council to enjoy stability of costs in future years and helps improve budgetary processes. Fixed rates protect the Council from interest rate increases but in contrast exposes it to opportunity costs should rates fall. Borrowing at variable rates currently allows the Council to source debt at levels which are considerably lower than fixed rate debt. Sourcing debt from the PWLB allows the Council to reschedule or prematurely redeem debt and the portfolio is continually monitored to take advantage of opportunities that may present themselves periodically to reduce overall costs.

# Notes to Main Financial Statements

£48,000k of debt is held in "Lenders Option Borrowers Option" (LOBO) market loans. These have been set to provide varying periods of fixed rate ranges with subsequent options for the lender to change this rate on agreed dates. A LOBO which falls within a year of an interest change date is classified as variable. Over the next three years loans totalling £11,000k, £13,000k and £14,000k respectively are scheduled for rate change options.

In order to minimise debt costs the Council did not take any new borrowing during 2013/14, instead utilising internal resources to finance its long term borrowing requirement. No debt was prematurely redeemed but naturally maturing debt of £10,278k reduced the loan portfolio during 2013/14.

## Financial Assets

The Council had a weighted average balance of investments (excluding unpaid Icelandic deposits) for 2013/14 of £131,663k. Throughout the year deposits were placed in instant access accounts and in fixed term deposits with varying maturity periods. This approach aimed to match investment maturities with expected expenditure and so spread interest rate risk. At year end there was a £7m long term deposit outstanding. The term remaining on all other deposits was less than one year and therefore classified as variable.

## 44. TRUST FUNDS

The Council is responsible for a number of small trust funds which are not consolidated in the accounts. The Council administers the trust and bequest funds in accordance with the wishes of the benefactors and disbursements from funds are made in pursuance of the objectives of each fund. Surplus monies are invested and the funds receive income mainly from interest and dividends on investments.

|  | 31 March 2014<br>£000's | 31 March 2013<br>£000's |
|--|-------------------------|-------------------------|
| Education trusts - providing academic prizes | 4                       | 4                       |
| Library trusts - purchase of library books   | 11                      | 11                      |
| Total  | 15                      | 15                      |

## 45. PENSION SCHEMES

### Defined Benefit Pension Schemes

As part of the terms and conditions of employment of its officers and other employees, the Council offers retirement benefits that include retirement pensions, dependent pensions, death grants and lump sum payments. Although these benefits will not actually be payable until employees retire, the Council has a commitment to make payments that need to be disclosed at the time that employees earn their future entitlement.

The Council participates in four defined benefit pension schemes, which are two funds of the Local Government Pension Scheme (LGPS), the Teachers' Pension Scheme and the NHS Pension Scheme. Accounting for the Teachers' Pension Scheme and NHS scheme varies from that of the LGPS and is expanded upon further within this note.

For the two funds of the LGPS, contributions are made at a level intended to balance the pensions liabilities with investment assets. The two funds are:

- London Borough of Hillingdon (LBH) Pension Fund of the LGPS for employees, administered locally by the Council.
- London Pension Fund Authority (LPFA) Pension Fund of the LGPS, which is a closed arrangement for former employees administered by the London Pension Fund Authority.

The adequacy of the funds' contributions and investments to resource future liabilities is reviewed tri-annually by actuaries appointed by the Council. Contribution rates are then set to meet the overall liabilities of the fund under Pension Fund Regulations. During 2013/14 employer's contribution rate was 21.1% with an additional 1% added to fund pension strain costs relating to early retirement. Employees contributed at variable rates between 5.5% and 7.5% of pensionable salary. The employer's contribution rate set for 2014/15 is 21.1% with any pension strain costs being directly attributable to the service area.

As the London Borough of Hillingdon is a contributor to the London Pension Fund Authority (LPFA) Pension Scheme it has been combined with London Borough of Hillingdon Pension Fund in the figures within this note.



# Notes to Main Financial Statements

## Defined Contribution Pension Schemes

### Teachers pension Scheme

Teachers employed by the Council are members of the Teachers' Pension Scheme. This fund is administered by the Department for Education and provides teachers with defined benefits upon their retirement. The Council contributes towards the pensions by making payments to the fund based on a percentage of members' pensionable salaries. The employer's contribution rate for 2013/14 was 14.1% (14.1% in 2012/13). The total contribution to the fund by the Council in 2013/14 was £6,874k (£7,555k in 2012/13), of this amount £576k was outstanding at 31 March 2014 (£590k at 31 March 2013). Subject to academy transfers, contributions to the fund are expected to remain unchanged for 2014/15.

With regard to the Teachers' Pensions Scheme there were no contributions remaining payable at the year end. The Teachers' Pension Scheme is a defined benefit scheme. Although the scheme is unfunded a notional fund is used as a basis for calculating the employers' contribution rate paid by local education authorities. However, it is not possible for the council to identify a share of the underlying liabilities in the scheme attributable to its own employees. For the purposes of this statement of accounts it is therefore accounted on the same basis as a defined contribution scheme. The authority is responsible for the costs of any additional benefits awarded upon early retirement outside of the terms of the teachers' scheme. There were no lump sums awarded in 2013/14, 2012/13 or 2011/12, and £861k paid in respect of on-going payments in 2013/14 (£876k in 2012/13).

### NHS pension Scheme

The Health and Social Care Act 2012, makes provision for the transfer of public health services and staff from primary care trusts (PCTs) to local authorities. As a result of this transfer, the London Borough of Hillingdon is responsible for deduction of pension contributions, both employees and employers from transferred staff. These contributions are forwarded on directly to the National Health Service Pension Scheme. The National Health Service Pension Scheme is unfunded and administered by National Health Service Business Services Authority (NHSBSA). However, it is not possible for the council to identify a share of the underlying liabilities in the scheme attributable to its own employees. For the purposes of this statement of accounts it is therefore accounted on the same basis as a defined contribution scheme. The pension cost charged to the accounts is the contribution rate set by the NHSBSA. In 2013/14 LB Hillingdon paid a total of £87,647 to the NHS Pension Scheme, representing 14% of pensionable pay. Contributions to the fund are expected to remain unchanged for 2014/15.

## Transactions relating to retirement benefits

The Council recognises the cost of retirement benefits in the Net Cost of Services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge required against council tax is based on the cash payable in the year, so the real cost of retirement benefits is reversed out of the General Fund via the Movement in Reserves Statement. The following transactions have been made in the Comprehensive Income and Expenditure Statement and the General Fund Balance via the Movement in Reserves Statement during the year:

|   | LBH Pension Fund        |                         | LPFA Pension Fund       |                         | Total                   |                         |
|---|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
|   | 31 March 2014<br>£000's | 31 March 2013<br>£000's | 31 March 2014<br>£000's | 31 March 2013<br>£000's | 31 March 2014<br>£000's | 31 March 2013<br>£000's |
| <b>Comprehensive Income and Expenditure Statement</b>   |                         |                         |                         |                         |                         |                         |
| <b>Cost of Services:</b>  |                         |                         |                         |                         |                         |                         |
| Service Cost  | 24,821                  | 12,256                  | 0                       | 0                       | 24,821                  | 12,256                  |
|   |                         |                         | 0                       | 0                       | 0                       | 0                       |
|   |                         |                         | 0                       | 0                       | 0                       | 0                       |
| <b>Total Net Cost Of Services</b>   | <b>24,821</b>           | <b>12,256</b>           | <b>0</b>                | <b>0</b>                | <b>24,821</b>           | <b>12,256</b>           |
| <b>Financing and Investment and Expenditure</b>   |                         |                         |                         |                         |                         |                         |
| Interest Cost on Defined Benefit Obligation   | 45,971                  | 42,560                  | 71                      | 251                     | 46,042                  | 42,811                  |
| Interest Income and Return on Plan Assets   | (29,359)                | (27,893)                | (83)                    | (248)                   | (29,442)                | (28,141)                |
| <b>Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services</b> | <b>16,612</b>           | <b>14,667</b>           | <b>(12)</b>             | <b>3</b>                | <b>16,600</b>           | <b>14,670</b>           |
| <b>Amounts to be met from Government Grants and Local Taxation</b>                                  |                         |                         |                         |                         |                         |                         |
| Movement on pension reserve   | <b>41,433</b>           | <b>26,923</b>           | <b>(12)</b>             | <b>3</b>                | <b>41,421</b>           | <b>26,926</b>           |
| <b>Actual amount charged against council tax for pensions in the year</b>                           |                         |                         |                         |                         |                         |                         |
| Employer's contributions payable to scheme  | 22,506                  | 18,890                  | 0                       | 0                       | 22,506                  | 18,890                  |
| Administration Costs  |                         |                         | (4)                     | (4)                     | (4)                     | (4)                     |
| Contributions in respect of unfunded benefits   | 2,267                   | 2,310                   | 5                       | 6                       | 2,272                   | 2,316                   |
|   | <b>24,773</b>           | <b>21,200</b>           | <b>1</b>                | <b>2</b>                | <b>24,774</b>           | <b>21,202</b>           |

# Notes to Main Financial Statements

In addition the Comprehensive Income and Expenditure Statement included an actuarial gain of £7,969k in 2013/14 (£54,339k loss in 2012/13). The cumulative amount of actuarial losses recognised in the Comprehensive Income and Expenditure Statement since 2004/05 is £324,861k.

The Council expects to make payments of £22,652k (£20,733 in 2013/14) in respect of contributions to the LBH Pension Fund during the financial year 2014/15.

## 46. PENSION SCHEMES BALANCE SHEET DISCLOSURES

### Reconciliation of present value of scheme liabilities

|  | LBH Pension Fund        |                         | LPFA Pension Fund       |                         | Total                   |                         |
|--|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
|  | 31 March 2014<br>£000's | 31 March 2013<br>£000's | 31 March 2014<br>£000's | 31 March 2013<br>£000's | 31 March 2014<br>£000's | 31 March 2013<br>£000's |
| <b>Opening Benefit Obligation</b>                                      | 1,026,344               | 895,278                 | 5,763                   | 5,749                   | 1,032,107               | 901,027                 |
| Current Service Cost   | 25,812                  | 18,305                  | 0                       | 0                       | 25,812                  | 18,305                  |
| Interest on defined liability  | 45,971                  | 42,560                  | 71                      | 251                     | 46,042                  | 42,811                  |
| Contributions by Members   | 6,857                   | 6,280                   | 0                       | 0                       | 6,857                   | 6,280                   |
| Remeasurement (gains) and losses:                                      |                         |                         |                         |                         |                         |                         |
| Actuarial gains/losses arising from changes in demographic assumptions | 12,127                  | 0                       | (81)                    | 0                       | 12,046                  | 0                       |
| Actuarial gains/losses arising from changes in financial assumptions   | (17,253)                | 106,477                 | (822)                   | 371                     | (18,075)                | 106,848                 |
| Other  | (9,208)                 | (1,400)                 | 929                     | 0                       | (8,279)                 | (1,400)                 |
| Past Service Cost including Curtailments                               | 533                     | 652                     | 0                       | 0                       | 533                     | 652                     |
| Liabilities Extinguished on Settlements                                | (2,110)                 | (9,113)                 | 0                       | 0                       | (2,110)                 | (9,113)                 |
| Estimated Unfunded Benefits Paid                                       | (2,267)                 | (2,310)                 | (5)                     | (6)                     | (2,272)                 | (2,316)                 |
| Estimated Benefits Paid  | (35,012)                | (30,385)                | (601)                   | (602)                   | (35,613)                | (30,987)                |
| <b>Closing Defined Benefit Obligation</b>                              | <b>1,051,794</b>        | <b>1,026,344</b>        | <b>5,254</b>            | <b>5,763</b>            | <b>1,057,048</b>        | <b>1,032,107</b>        |

### Reconciliation of fair value of scheme assets

|   | LBH Pension Fund        |                         | LPFA Pension Fund       |                         | Total                   |                         |
|---|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
|   | 31 March 2014<br>£000's | 31 March 2013<br>£000's | 31 March 2014<br>£000's | 31 March 2013<br>£000's | 31 March 2014<br>£000's | 31 March 2013<br>£000's |
| <b>Opening Fair Value of Employer Assets</b>                                | 656,243                 | 584,868                 | 2,602                   | 2,960                   | 658,845                 | 587,828                 |
| Interest Income on Plan Assets  | 29,359                  | 27,893                  | 83                      | 248                     | 29,442                  | 28,141                  |
| Contributions by Members  | 6,857                   | 6,280                   | 0                       | 0                       | 6,857                   | 6,280                   |
| Contributions by the Employer   | 22,506                  | 18,890                  | 0                       | 0                       | 22,506                  | 18,890                  |
| Contributions in respect of Unfunded Benefits                               | 2,267                   | 2,310                   | 5                       | 6                       | 2,272                   | 2,316                   |
| Remeasurement (gains) and losses:   |                         |                         |                         |                         |                         |                         |
| The return on plan assets, excluding the amount in the net interest expense | (6,764)                 | 51,109                  | 425                     | 0                       | (6,339)                 | 51,109                  |
| Assets Distributed on Settlements   | (586)                   | (2,412)                 | 0                       | 0                       | (586)                   | (2,412)                 |
| Administration Expenses   | 0                       | 0                       | (4)                     | (4)                     | (4)                     | (4)                     |
| Estimated Unfunded Benefits Paid  | (2,267)                 | (2,310)                 | 0                       | 0                       | (2,267)                 | (2,310)                 |
| Estimated Benefits Paid   | (35,012)                | (30,385)                | (606)                   | (608)                   | (35,618)                | (30,993)                |
| <b>Closing Fair Value of Employer Assets</b>                                | <b>672,603</b>          | <b>656,243</b>          | <b>2,505</b>            | <b>2,602</b>            | <b>675,108</b>          | <b>658,845</b>          |

For the LBH the return on scheme assets is estimated based on the actual fund returns and index returns where necessary. The LPFA is determined by setting the expected return equal to the discount rate.



# Notes to Main Financial Statements

## Pension Scheme assets comprised

|                                | LBH Pension Fund                             |  |   | LPFA Pension Fund                            |   |  | Total                                     |                      |                      |
|--------------------------------|--|--|---|--|---|--|---|----------------------|----------------------|
|                                | Quoted Prices in Active Markets 13/14 £000's | Quoted Prices in Active Markets 12/13 £000's | Prices not in Active Markets 12/13 £000's | Quoted Prices in Active Markets 13/14 £000's | Prices not in Active Markets 13/14 £000's | Quoted Prices in Active Markets 12/13 £000's | Prices not in Active Markets 12/13 £000's | 31 March 2014 £000's | 31 March 2013 £000's |
| <b>Equity Instruments</b>      |  |  |   |  |   |  |   |                      |                      |
| Consumer                       | 26,921                                       | 37,236                                       | 0   | 263  | 0   | 264  | 0   | 27,184               | 37,500               |
| Manufacturing                  | 34,606                                       | 34,428                                       | 0   | 86   | 0   | 89   | 0   | 34,692               | 34,517               |
| Energy & Utilities             | 31,865                                       | 30,958                                       | 0   | 39   | 0   | 39   | 0   | 31,904               | 30,997               |
| Financial Institutions         | 41,927                                       | 43,943                                       | 0   | 94   | 0   | 99   | 0   | 42,021               | 44,042               |
| Health & Care                  | 9,591  | 17,426                                       | 0   | 0  | 0   | 0  | 0   | 9,591                | 17,426               |
| Information Technology         | 8,374  | 9,245  | 0   | 60   | 0   | 55   | 0   | 8,434                | 9,300                |
| Other                          | 13,183                                       | 13,062                                       | 0   | 122  | 0   | 119  | 0   | 13,305               | 13,181               |
| UK Government                  | 28,143                                       | 35,949                                       | 0   | 0  | 0   | 0  | 0   | 28,143               | 35,949               |
| Other                          | 5,884  | 15,085                                       | 0   | 0  | 0   | 0  | 0   | 5,884                | 15,085               |
| All                            | 0  | 34,566                                       | 38,591                                    | 0  | 170                                       | 0  | 204                                       | 34,736               | 38,795               |
| Debt Securities                | 0  | 46,758                                       | 45,552                                    | 0  | 66  | 0  | 97  | 46,824               | 45,649               |
| Private Equity                 |  |  |   |  |   |  |   |                      |                      |
| Real Estate                    |  |  |   |  |   |  |   |                      |                      |
| Investment Funds & Unit Trusts |  |  |   |  |   |  |   |                      |                      |
| Equities                       | 244,398                                      | 188,517                                      | 0   | 31   | 0   | 27   | 2   | 244,431              | 188,546              |
| Bonds                          | 83,011                                       | 87,127                                       | 0   | 270  | 0   | 221  | 297                                       | 83,587               | 87,645               |
| Hedge Funds                    | 0  | 0  | 731                                       | 4  | 13  | 4  | 42  | 17                   | 777                  |
| Commodities                    | 0  | 0  | 3,832                                     | 0  | 0   | 0  | 0   | 1,635                | 3,832                |
| Infrastructure                 | 0  | 0  | 7,781                                     | 7  | 81  | 7  | 86  | 5,097                | 7,874                |
| Other                          | 0  | 0  | 15,519                                    | 62   | 501                                       | 72   | 465                                       | 23,124               | 16,056               |
| Derivatives                    | 16,579                                       | 4,952  | (78)                                      | 0  | 8   | 1  | (8)                                       | 18,139               | 4,867                |
| Liability Driven Investments   | 0  | 0  | 0   | 0  | 154                                       | 0  | 255                                       | 154                  | 255                  |
| Target Returns                 | 0  | 0  | 0   | 82   | 0   | 85   | 0   | 82                   | 85                   |
| Commodities                    | 0  | 0  | 0   | 20   | 7   | 23   | 6   | 27                   | 29                   |
| Cash & Cash Equivalents        | 16,040.0                                     | 26,387.0                                     | 0   | 57   | 0   | 51   | 0   | 16,097               | 26,438               |
|                                | <b>560,522</b>                               | <b>544,315</b>                               | <b>111,928</b>                            | <b>1,197</b>                                 | <b>1,308</b>                              | <b>1,156</b>                                 | <b>1,446</b>                              | <b>675,108</b>       | <b>658,845</b>       |

# Notes to Main Financial Statements

## Pensions Assets and Liabilities recognised in the Balance Sheet

|                                      | 2013/14<br>£000's | 2012/13<br>£000's | 2011/12<br>£000's | 2010/11<br>£000's | 2009/10<br>£000's |
|--------------------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| <b>Present value of liabilities:</b> |                   |                   |                   |                   |                   |
| LBH                                  | (1,051,794)       | (1,026,344)       | (895,278)         | (820,944)         | (994,245)         |
| LPFA                                 | (5,254)           | (5,763)           | (5,749)           | (5,946)           | (6,158)           |
| <b>Fair Value of Assets:</b>         |                   |                   |                   |                   |                   |
| LBH                                  | 672,603           | 656,243           | 584,868           | 575,064           | 561,122           |
| LPFA                                 | 2,505             | 2,602             | 2,960             | 3,380             | 3,268             |
| <b>Deficit in the scheme:</b>        |                   |                   |                   |                   |                   |
| LBH                                  | (379,191)         | (370,101)         | (310,410)         | (245,880)         | (433,123)         |
| LPFA                                 | (2,749)           | (3,161)           | (2,789)           | (2,566)           | (2,890)           |
| <b>Total</b>                         | <b>(381,940)</b>  | <b>(373,262)</b>  | <b>(313,199)</b>  | <b>(248,446)</b>  | <b>(436,013)</b>  |

The liabilities show the underlying commitments that the Council has in the long term to pay retirement benefits. The total liability of £1,057m is offset by the scheme assets of £675m to give the net pension liability of £382m as disclosed on the balance sheet.

However, statutory arrangements for funding the deficit mean that the financial position of the Council remains viable: the deficit on the LBH scheme will be made good by increased contributions over the remaining working life of employees, as assessed by the scheme actuary, in addition to ongoing investment returns.

## 47. PENSION SCHEMES BASIS OF ESTIMATION

### Basis for estimating assets and liabilities

Liabilities have been assessed on an actuarial basis using the projected unit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels etc. The scheme liabilities for both LBH and LPFA have been assessed by their appointed actuary, estimates for the LBH scheme being based on the latest full valuation of the scheme as at 31 March 2013. The appointed actuary for LBH is Hymans Robertson LLP and for LPFA is Barnett Waddingham.

|  | LBH Pension Fund |                  | LPFA Pension Fund |                  |
|--|------------------|------------------|-------------------|------------------|
|  | 31 March<br>2014 | 31 March<br>2013 | 31 March<br>2014  | 31 March<br>2013 |
| <u>Financial Assumptions: (% p.a.)</u>   |                  |                  |                   |                  |
| Pension Increase Rate  | 2.8%             | 2.8%             | 2.4%              | 2.2%             |
| Salary Increase Rate   | 3.6%             | 5.1%             | 4.2%              | 3.9%             |
| Expected Return on Assets  |                  | 4.5%             |                   | 4.3%             |
| Discount Rate  | 4.3%             | 4.5%             | 3.6%              | 1.3%             |
| <u>Mortality Assumptions:</u>  |                  |                  |                   |                  |
| Longevity at 65 for current pensioners:  |                  |                  |                   |                  |
| - Men  | 22.7             | 20.8             | 22.1              | 21.1             |
| - Women  | 24.7             | 24.1             | 25.1              | 24.0             |
| Longevity at 65 for future pensioners:   |                  |                  |                   |                  |
| - Men  | 24.3             | 22.3             | 24.4              | 23.0             |
| - Women  | 26.9             | 25.7             | 27.3              | 25.9             |
| Take-up of option to convert annual pension to tax free lump sum pre-April 2008  | 65%              | 50%              | 65%               | 50%              |
| Take-up of option to convert annual pension to tax free lump sum post-April 2008 | 85%              | 75%              | 85%               | 75%              |

# Notes to Main Financial Statements

## Sensitivity Analysis

The estimation of the defined benefit obligation is sensitive to principal actuarial assumptions used to measure the scheme. The sensitivity analyses below have been based on reasonably possible changes of assumptions occurring at the end of the reporting period and assumes all other assumptions remain constant. For example the assumptions in longevity assume that life expectancy increases or decreases. The estimations on sensitivity analysis have followed the accounting policies of the scheme. The methods and types of estimations in sensitivity analysis have not changed from those in the previous period.

|   | LBH Pension Fund               |                                       | LPFA Pension Fund              |                                |
|---|--------------------------------|---------------------------------------|--------------------------------|--------------------------------|
|   | Increase to Employer Liability | £000's Increase to Employer Liability | Increase to Employer Liability | Increase to Employer Liability |
| <b>Changes in Assumptions as at 31 March 2014</b> |                                |                                       |                                |                                |
| 0.5% Decrease in Real Discount Rate               | 9%                             | 93,294                                | 4%                             | 225                            |
| 1 Year Increase in Member Life Expectancy         | 3%                             | 31,554                                | 3%                             | 178                            |
| 0.5% Increase in the Salary Increase Rate         | 2%                             | 22,681                                | 0%                             | 0                              |
| 0.5% Increase in the Pension Increase Rate        | 7%                             | 69,981                                | 4%                             | 230                            |

## Scheme and Impact on the Authorities cash flows

The LBH Pension Fund is operated under the regulatory framework for the Local Government Pension Scheme and the governance of the scheme is the responsibility of the pensions committee of the Council. Policy is determined in accordance with the Pension Fund Regulations. The principle risks to the council in relation to the scheme are the longevity assumptions, statutory changes to the scheme, inflation and performance of the funds investment assets. These risks are mitigated to an extent by the statutory requirements to charge amounts required by statute as described in the accounting policies note to the General Fund and Housing Revenue Account.

The Objectives of the LBH LGPS Pension fund are to keep employer's contributions at as a constant a rate as possible. The Council's pension fund undergoes a triennial valuation to set the contribution rates of the all the employers in the scheme to achieve a funding level of 100% over the next 25 years. A new contribution rate has been set over the last triennial valuation period to cover contribution rates of the council for three years from April 2014, so this should minimise disruption in cash flow impacts of the Council.

The weighted average duration of the defined benefit obligation for scheme members is 17.2 years as established in the triennial valuation dated 31 March 2013.

Further information about the LBH pension Fund can be seen in the Pension Fund accounts and in the Pension Fund annual report.

# Other Financial Statements

## **The Housing Revenue Account (page 93)**

There is a statutory duty to account separately for local authority housing provision. The HRA Income and Expenditure Statement shows further detail of the Income and Expenditure on HRA services included in the whole authority Comprehensive Income and Expenditure Statement. It includes the major elements of Council housing revenue expenditure on maintenance, administration and capital financing costs and major income sources such as rents and other income.

## **The Collection Fund Account (page 97)**

This account reflects the statutory requirement to maintain a separate Collection Fund which shows the transactions of the billing authority in relation to National Non-Domestic Rates and Council Tax, and illustrates the way in which these have been distributed to preceptors and the general fund. The Collection fund is consolidated with the other accounts of the Council.

## **Pension Fund Accounts (page 100)**

This fund is not included within the Council's Balance Sheet, but is maintained separately. The Council acts as the administrator for the London Borough of Hillingdon Fund of the Local Government Pension Scheme.

# HRA - Comprehensive Income And Expenditure Statement

The HRA Income and Expenditure Statement shows the economic cost in the year of providing housing services in accordance with generally accepted accounting practices, rather than the amount to be funded from rents and government grants. Council's charge rents to cover expenditure in accordance with regulations; this may be different from the accounting cost. The increase or decrease in the year, on the basis of which rents are raised, is shown in the Movement on the HRA Balance.

|   | Notes | 31 March 2014<br>£000's | 31 March 2013<br>£000's |
|---|-------|-------------------------|-------------------------|
| <b>Expenditure</b>  |       |                         |                         |
| Repairs and maintenance   |       | 10,160                  | 16,548                  |
| Supervision and management  |       | 15,670                  | 14,223                  |
| Rents, rates, taxes & other charges   |       | 37                      | 24                      |
| Increase in provision for bad debts   |       | 587                     | 97                      |
| Housing Revenue Account Subsidy payable   |       | 0                       | (31)                    |
| Debt management costs   |       | 0                       | 195                     |
| Depreciation and Impairment of non current assets   | 3     | 9,492                   | 9,002                   |
| Reversal of previous impairment   |       | (37,946)                | (11,813)                |
|   |       | <b>(2,000)</b>          | <b>28,245</b>           |
| <b>Income</b>   |       |                         |                         |
| Gross dwelling rents  |       | (55,264)                | (54,260)                |
| Gross non dwelling rents  |       | (1,064)                 | (1,849)                 |
| Charges for services and facilities   |       | (3,455)                 | (3,398)                 |
| Contributions towards expenditure   |       | (1,506)                 | (1,421)                 |
|   |       | <b>(61,289)</b>         | <b>(60,928)</b>         |
| <b>Net Cost of HRA Services as included in the Comprehensive Income and Expenditure Statement</b> |       |                         |                         |
| HRA Services share of Corporate and Democratic Core   |       | 722                     | 643                     |
| <b>Net Cost of HRA services</b>   |       | <b>(62,567)</b>         | <b>(32,040)</b>         |
| (Gain) on sale of HRA non current assets  |       | (5,572)                 | (3,056)                 |
| Other HRA income  |       | (7)                     | 0                       |
| Interest payable and similar charges  |       | 7,281                   | 7,383                   |
| HRA investment income   |       | (266)                   | (115)                   |
| Capital Grant Income  |       | (103)                   | (120)                   |
| <b>(Surplus)/Deficit for the year on HRA services</b>   |       | <b>(61,234)</b>         | <b>(27,948)</b>         |

Paul Whaymand  
Corporate Director of Finance  
29 September 2014

# Movement on the HRA Balance

|  | 2013/14<br>£000's | 2012/13<br>£000's |
|--|-------------------|-------------------|
| HRA Balance Brought forward  | (19,089)          | (13,412)          |
| <b>(Surplus)/Deficit for the year on HRA services</b>  | <b>(61,234)</b>   | <b>(27,948)</b>   |
| <b>Additional amount required by statute or non-statutory proper practices to be debited or credited to the General Fund balance for the year.</b> |                   |                   |
| Gain/(Loss) on sale of HRA non current assets  | 5,580             | 3,055             |
| Capital Grant Income   | 103               | 120               |
| Premium on early redemption of HRA debt  | 35                | 44                |
| HRA share of contributions to or from the Pension Reserve  | (96)              | 202               |
| Revaluation of Non Current Assets  | 37,946            | 11,813            |
| Provision for repayment of debt  | 9,854             | 6,752             |
| <b>Net Increase before transfer to reserves</b>  | <b>(7,812)</b>    | <b>(5,962)</b>    |
| Transfer to Major Repairs Reserve  | 4,750             | 0                 |
| Released from Earmarked Reserves   | (669)             | 285               |
| <b>Increase in year on HRA</b>   | <b>(3,731)</b>    | <b>(5,677)</b>    |
| <b>Balance on HRA at the end of the current reporting period</b>   | <b>(22,820)</b>   | <b>(19,089)</b>   |
| <b>HRA Balances</b>  |                   |                   |
| Major Repairs Reserves   | (11,379)          | (1,123)           |
| HRA Share of Earmarked Reserves  | (46)              | (715)             |
| <b>Total HRA Balances</b>  | <b>(34,245)</b>   | <b>(20,927)</b>   |

# Notes to Housing Revenue Account

## 1. HOUSING STOCK

The Council was responsible at 31st March 2014 for managing dwellings.

The stock was as follows:

|                       | <b>Total Properties<br/>31 March 2014</b> | <b>Total Properties<br/>31 March 2013</b> |
|-----------------------|---|---|
| 1 Bed Properties      | 3,621                                     | 3,646                                     |
| 2 Bed Properties      | 3,616                                     | 3,659                                     |
| 3 Bed Properties      | 2,799                                     | 2,838                                     |
| 4 Bed plus Properties | 242                                       | 234                                       |
| <b>Total</b>          | <b>10,278</b>                             | <b>10,377</b>                             |

## 2. VALUE OF HRA ASSETS

|                               | <b>Net Book Value<br/>31 March 2014<br/>£000's</b> | <b>Net Book Value<br/>31 March 2013<br/>£000's</b> |
|-------------------------------|--|--|
| <b>Operational Assets</b>     |  |  |
| Council dwellings             | 531,531  | 505,882  |
| Other land & buildings        | 834  | 18,626   |
| Vehicle, plant & equipment    | 4,990  | 2,963  |
| Intangible Asset              | 11   | 0  |
| <b>Non-Operational Assets</b> |  |  |
| Investment Properties         | 70   | 70   |
| <b>Total</b>                  | <b>537,436</b>                                     | <b>527,541</b>                                     |

The vacant possession value of dwellings within the authority's HRA as at 31 March 2014 was £2,191m, this differs from the balance sheet value of £532m which is based on the economic use value of social housing. The difference of £1,659m between these two figures shows the economic cost of providing housing at social rents over 30 year cycle compared to open market rents.

## 3. DEPRECIATION

Depreciation charged in year to the HRA

|                            | <b>Depreciation<br/>2013/14<br/>£000's</b> | <b>Depreciation<br/>2012/13<br/>£000's</b> |
|----------------------------|--|--|
| <b>Operational Assets</b>  |  |  |
| Council dwellings          | (8,875)                                    | (8,537)                                    |
| Other land & buildings     | (405)                                      | (430)                                      |
| Vehicle, plant & equipment | (212)                                      | (35)                                       |
| <b>Total</b>               | <b>(9,492)</b>                             | <b>(9,002)</b>                             |

# Notes to Housing Revenue Account

## 4. CAPITAL EXPENDITURE

Capital Expenditure on HRA council dwellings during 2013/14 totalled £4.088m. This was financed by:

|                      | 31 March 2014<br>£000's | 31 March 2013<br>£000's |
|----------------------|-------------------------|-------------------------|
| Revenue contribution | 3,986                   | 4,379                   |
| Capital receipts     | 0                       | 743                     |
| Other contributions  | 103                     | 120                     |
|                      | <b>4,089</b>            | <b>5,242</b>            |

Capital receipts from the sale of HRA properties during 2013/14 totalled £10.8m of which £1m was paid to Central Government under Pooling arrangements, £7.5m retained for 'one for one' replacement scheme of the Government, £1m was allowed towards the repayment of housing self financing debt with £1.3m attributable to other financing.

## 5. RENT ARREARS

At 31 March 2014 the gross HRA rent arrears amounted to £3,544k (£3,966k in 2012/13) of which £3,497k (£3,873k in 2012/13) relates to dwellings and £47k (£93k in 2012/13) to commercial rent.

## 6. BAD DEBT PROVISION

The provision for bad debts on all HRA debts as at 31 March 2014 was £2,623k (£2,424k in 2012/13). In the year, £318k of debts were written off.

## 7. MAJOR REPAIRS RESERVE

HRA resource accounting requires the maintenance of a Major Repairs Reserve (MRR) and holds depreciation charged to the HRA and revenue contribution to capital expenditure of HRA. The movements on this reserve are shown below.

|                                     | 2013/14<br>£000's | 2012/13<br>£000's |
|-------------------------------------|-------------------|-------------------|
| Balance as at 1 April               | 1,123             | 0                 |
| Depreciation transferred to reserve | 9,492             | 9,002             |
| Transfer to MRR                     | 4,750             | 0                 |
| Capital programme funding           | (3,986)           | (4,379)           |
| Repayment of debt                   | 0                 | (3,500)           |
|                                     | <b>11,379</b>     | <b>1,123</b>      |

The £11.4m held in this reserve will be used to finance capital expenditure on dwellings.

## 8. CONTRIBUTIONS TO PENSION RESERVE

The cost of employer's pension contributions in the HRA Income and Expenditure is reported in-line with IAS 19, which requires the current service cost, rather than the actual employer's contribution, be recognised. The HRA cost for 2013/14 was up by £96.3k.



# Collection Fund Account

The Collection Fund is an agent's statement that reflects the statutory obligation for the Council, as a billing authority, to maintain a separate Collection. This statement shows the transactions of the billing authority in relation to the collection from taxpayers and distribution to local authorities and the Government of Council Tax and Non Domestic Rates.

| Council Tax  | Notes | 31 March<br>2014<br>£000's | 31 March<br>2013<br>£000's |
|--|-------|----------------------------|----------------------------|
| Council Tax Income   |       | (127,018)                  | (122,580)                  |
| Transfer from General Fund in respect of Council Tax                           |       | 0                          | (21,992)                   |
| Contribution towards previous years' estimated Council Tax (Surplus) / Deficit | 1     | 606                        | 1,666                      |
| Write-offs Uncollectable Council Tax Debt                                      |       | 194                        | 155                        |
| Write-back Uncollectable Council Tax Debt                                      |       | (354)                      | (147)                      |
| Provision for Doubtful Council Tax Debts                                       |       | 773                        | (387)                      |
| London Borough of Hillingdon Council Tax Precept                               | 1     | 97,321                     | 111,556                    |
| Greater London Authority Council Tax Precept                                   | 1     | 26,496                     | 30,744                     |
| <b>Council Tax (Surplus) / Deficit for the Year</b>                            |       | <b>(1,982)</b>             | <b>(985)</b>               |
| Opening Council Tax (Surplus) / Deficit Balance                                |       | (3,687)                    | (2,702)                    |
| Council Tax (Surplus) / Deficit for the Year                                   |       | (1,982)                    | (985)                      |
|  |       | <b>(5,669)</b>             | <b>(3,687)</b>             |

From 1 April 2013 Council Tax Benefit was abolished and replaced by the locally funded Council Tax Support Scheme, in 2012/13 the transfer into the Collection Fund in respect of this benefit totalled £21,992k. Sums payable to preceptors has also decreased as a result of this change.

| National Non-Domestic Rates (NNDR) & Business Rate Supplement (BRS)     | Notes | 31 March<br>2014<br>£000's | 31 March<br>2013<br>£000's |
|---|-------|----------------------------|----------------------------|
| National Non-Domestic Rates Income                                      |       | (336,269)                  | (323,329)                  |
| Business Rate Supplement Income   |       | (12,901)                   | (12,440)                   |
| Contribution towards previous years' estimated NNDR (Surplus) / Deficit |       | 0                          | 0                          |
| Write-offs Uncollectable NNDR Debt                                      |       | 2,627                      | 2,502                      |
| Write-back Uncollectable NNDR Debt                                      |       | (517)                      | (30)                       |
| Provision for Doubtful NNDR Debts                                       |       | (393)                      | (1,943)                    |
| Provision for Backdated Appeal Losses                                   | 3     | 4,295                      | 0                          |
| London Borough of Hillingdon Share NNDR Income                          | 2     | 99,397                     | 0                          |
| Greater London Authority Share NNDR Income                              | 2     | 66,265                     | 0                          |
| Central Government Share NNDR Income                                    | 2     | 165,662                    | 0                          |
| Transitional Payment Protection Receivable                              |       | (349)                      | 0                          |
| Payment to National Pool (2012/13 Only)                                 | 2     | 0                          | 322,202                    |
| Payment to Greater London Authority in respect of BRS Income            |       | 12,879                     | 12,411                     |
| NNDR Cost of Collection Allowance                                       |       | 598                        | 598                        |
| BRS Cost of Collection Allowance  |       | 22                         | 29                         |
| <b>NNDR (Surplus) / Deficit for the Year</b>                            |       | <b>1,316</b>               | <b>0</b>                   |
| Opening NNDR (Surplus) / Deficit Balance                                |       | 0                          | 0                          |
| NNDR (Surplus) / Deficit for the Year                                   |       | 1,316                      | 0                          |
| <b>Brought Forward NNDR (Surplus) / Deficit Balance</b>                 |       | <b>1,316</b>               | <b>0</b>                   |

With the introduction of the Business Rate Retention system from 1 April 2013, the single payment into the national pool has been abolished and income distributed between the Council, Greater London Authority and Central Government.

# Collection Fund Account

## 1. Calculation of the Council Tax Base and 2013/14 Council Tax Revenues

The Council Tax Base is based upon the number of dwellings within the borough, analysed by valuation band and adjusted for reductions in expected tax yield arising from discounts, exemptions and the Council Tax Support Scheme. The Council Tax Base is set annually in advance of budget setting, with the 2013/14 base agreed by full Council on 16 January 2013. Prior to 2012/13 the Council Tax Base included those properties in receipt of Council Tax Benefit, accounting for the significant reduction in the base between years.

| Band         | Estimated Number of Properties | Discounts & Exemptions | Council Tax Support Scheme | Net Estimated Number of Properties | Band D Equivalent Ratio | Band D Equivalent 2013/14                           | Band D Equivalent 2012/13 |                |
|--------------|--------------------------------|------------------------|----------------------------|------------------------------------|-------------------------|---|---------------------------|----------------|
| A            | 811                            | (135)                  | (203)                      | 473                                | 6/9                     | 315   | 439                       |                |
| B            | 5,394                          | (908)                  | (1,396)                    | 3,090                              | 7/9                     | 2,403   | 3,411                     |                |
| C            | 22,339                         | (2,742)                | (4,503)                    | 15,094                             | 8/9                     | 13,417  | 16,940                    |                |
| D            | 43,381                         | (2,942)                | (6,164)                    | 34,275                             | 9/9                     | 34,275  | 40,235                    |                |
| E            | 17,354                         | (1,059)                | (1,185)                    | 15,110                             | 11/9                    | 18,468  | 19,855                    |                |
| F            | 9,200                          | (483)                  | (276)                      | 8,441                              | 13/9                    | 12,193  | 12,401                    |                |
| G            | 4,264                          | (183)                  | (70)                       | 4,011                              | 15/9                    | 6,685   | 6,834                     |                |
| H            | 370                            | (12)                   | (5)                        | 353                                | 18/9                    | 706   | 748                       |                |
| <b>Total</b> | <b>103,113</b>                 | <b>(8,464)</b>         | <b>(13,802)</b>            | <b>80,847</b>                      |                         | <b>88,462</b>                                       | <b>100,863</b>            |                |
|              |                                |                        |                            |                                    |                         | Adjustment for Non-collection                       | (1,769)                   | (1,311)        |
|              |                                |                        |                            |                                    |                         | Ministry of Defence Contribution                    | 753                       | 684            |
|              |                                |                        |                            |                                    |                         | <b>Council Tax Base</b>                             | <b>87,446</b>             | <b>100,236</b> |
|              |                                |                        |                            |                                    |                         | London Borough of Hillingdon Band D Council Tax (£) | 1,113                     | 1,113          |
|              |                                |                        |                            |                                    |                         | Greater London Authority Band D Council Tax (£)     | 303                       | 307            |
|              |                                |                        |                            |                                    |                         | <b>Total Band D Council Tax (£)</b>                 | <b>1,416</b>              | <b>1,420</b>   |
|              |                                |                        |                            |                                    |                         | <b>Demand on Collection Fund (£'000)</b>            | <b>123,817</b>            | <b>142,300</b> |

Annual precepts levied upon the Collection Fund Account in respect of Council Tax by the Council and Greater London Authority are derived from the Council Tax Base and the Band D Council Tax charge approved for the financial year. The following table analyses all Council Tax activity within the Collection Fund between the major preceptors, with the Council's own activity reflected in the main statement of accounts.

|                              | Balance 31 March 2013 £000's | 2013/14 Precept £000's | Release of Prior Year Estimated Surplus £000's | 2013/14 Council Tax Revenues £000's | 2013/14 Surplus £000's | Balance 31 March 2014 £000's |
|------------------------------|------------------------------|------------------------|--|-------------------------------------|------------------------|------------------------------|
| London Borough of Hillingdon | (2,853)                      | 97,321                 | 480  | (99,355)                            | (1,554)                | (4,407)                      |
| Greater London Authority     | (834)                        | 26,496                 | 126  | (27,050)                            | (428)                  | (1,262)                      |
| <b>Grand Total</b>           | <b>(3,687)</b>               | <b>123,817</b>         | <b>606</b>                                     | <b>(126,405)</b>                    | <b>(1,982)</b>         | <b>(5,669)</b>               |

# Collection Fund Account

## 2. National Non-Domestic Rating Income & Business Rate Retention System

National Non-Domestic Rates are levied on the basis of the Valuation Office Agency's assessment of the Rateable Value of a non-domestic property. As at 31 March 2014 the aggregate Rateable Value across the 8,151 hereditaments within the borough totalled £775,652k, with rates payable determined by the National Non-Domestic multiplier which is set annually by Central Government. For 2013/14 the standard multiplier was 47.1p in the pound and for small businesses 46.2p in the pound.

Prior to 2013/14 Non-Domestic Rates Income was collected on an agency basis before being pooled nationally. The introduction of the Business Rate Retention System from 1 April 2013 results in locally raised income being shared between the Council (30%), the Greater London Authority (20%) and Central Government (50%) as detailed in the table below. The income for the Council's General Fund is detailed in note 5 to the main statement of accounts.

|                              | Balance<br>31 March<br>2013<br>£000's | 2013/14<br>Budgeted<br>Share of<br>Income<br>£000's | Release of<br>Prior Year<br>Estimated<br>Surplus<br>£000's | 2013/14 Non-<br>Domestic<br>Rates<br>Revenues<br>£000's | 2013/14<br>Deficit<br>£000's | Balance<br>31 March<br>2014<br>£000's |
|------------------------------|---------------------------------------|---|--|---|------------------------------|---------------------------------------|
| London Borough of Hillingdon | 0                                     | 99,397  | 0  | (99,010)  | 387                          | 387                                   |
| Greater London Authority     | 0                                     | 66,265  | 0  | (65,998)  | 267                          | 267                                   |
| Central Government           | 0                                     | 165,662   | 0  | (165,000)   | 662                          | 662                                   |
| <b>Grand Total</b>           | <b>0</b>                              | <b>331,324</b>                                      | <b>0</b>   | <b>(330,008)</b>  | <b>1,316</b>                 | <b>1,316</b>                          |

## 3. Provision for losses on Non-Domestic Rating Income due to back-dated appeals

Non-Domestic Ratepayers are able to challenge the Valuation Office Agency's assessment of the Rateable Value for their property, which if successful will result in a reduction in future payments and in some cases a refund of previously levied rates. 1,134 such appeals relating to 975 separate hereditaments were outstanding with the Valuation Office Agency as at the 31 March 2014. Given the inherent uncertainty around the financial impact of such appeals, a provision of £4,295k has been established on the basis of past experience of appeals. Prior to 2013/14 no such provision was held as the financial impact of any such losses were managed by Central Government, from 2013/14 onwards the cost of this provision is split in line with the shares of income noted above.

# Pension Fund Accounts and Net Asset Statement

|   | Notes | 31 March 2014<br>£000's | 31 March 2013<br>£000's |
|---|-------|-------------------------|-------------------------|
| Contributions                                   | 4     | 35,099                  | 31,871                  |
| Transfers In                                    | 5     | 750                     | 284                     |
| Less: Benefits                                  | 6     | (34,748)                | (31,424)                |
| Less: Leavers                                   | 7     | (2,890)                 | (1,957)                 |
| Less: Administrative expenses                   | 8     | (610)                   | (589)                   |
| <b>Net additions from dealings with members</b> |       | <b>(2,399)</b>          | <b>(1,815)</b>          |
| Investment income                               | 9     | 15,546                  | 14,054                  |
| Changes in market value of investments          | 10    | 34,113                  | 61,904                  |
| Taxes on income                                 |       | (7)                     | (19)                    |
| Investment management expenses                  | 12    | (3,769)                 | (3,922)                 |
| <b>Net return on investments</b>                |       | <b>45,883</b>           | <b>72,017</b>           |
| <b>Net Increase in the fund during the year</b> |       | <b>43,484</b>           | <b>70,202</b>           |
| <b>Net Assets at start of year</b>              |       | <b>683,052</b>          | <b>612,850</b>          |
| <b>Net Assets at end of year</b>                |       | <b>726,536</b>          | <b>683,052</b>          |

|                         |    | 31 March 2014<br>£000's | 31 March 2013<br>£000's |
|-------------------------|----|-------------------------|-------------------------|
| Investment Assets       | 10 | 725,110                 | 682,984                 |
| Investment Liabilities  | 11 | (649)                   | (3,432)                 |
| Current Assets          | 13 | 2,802                   | 4,358                   |
| Current Liabilities     | 14 | (727)                   | (858)                   |
| <b>TOTAL NET ASSETS</b> |    | <b>726,536</b>          | <b>683,052</b>          |

The Pension Fund Accounts summarise the transactions of the scheme and shows the net assets at the disposal of members. They do not take account of obligations to pay pensions and benefits which fall due after the end of the scheme year. The actuarial position of the scheme, which does take account of such obligations, is shown in the actuarial statement included in the Pension Fund Annual Report and these accounts should be read in conjunction with this.

**Paul Whaymand**  
**Corporate Director of Finance**  
**29 September 2014**

# Pension Fund Accounts and Net Asset Statement

## 1. DESCRIPTION OF FUND

The London Borough of Hillingdon Pension Fund ("the fund") is part of the Local Government Pension Scheme and is administered by London Borough of Hillingdon. The Council is the reporting entity for this pension fund. The following description of the fund is a summary only. For more details, reference should be made to the London Borough of Hillingdon Pension Fund Annual Report 2013/14 and the underlying statutory powers underpinning the scheme, namely the Superannuation Act 1972 and the Local Government Pension Scheme (LGPS) Regulations.

a) General: The fund is governed by the Superannuation Act 1972 and administered in accordance with the following secondary legislation:

- the LGPS (Benefits, Membership and Contributions) Regulations 2007 (as amended)
- the LGPS (Administration) Regulations 2008 (as amended)
- the LGPS (Management and Investment of Funds) Regulations 2009.

It is a contributory defined pension scheme administered by London Borough of Hillingdon to provide pensions and other benefits for pensionable employees of the Council and a range of other scheduled and admitted bodies within the borough.

b) Membership: Membership of the LGPS is voluntary and employees are free to choose whether to join the scheme, remain in the scheme or make their own personal arrangements outside the scheme. But since 1 February 2013 all new employees of the Council are automatically enrolled, with option to opt out of the scheme within three months of auto enrolment.

### FUND OPERATION AND MEMBERSHIP

The Local Government Pension Scheme is a defined benefit scheme, administered under the provisions of the Local Government Pension Scheme Administration Regulations 2008 and the Local Government Pension Scheme (Benefits, Contributions and Membership) Regulations 2007 to provide benefits for members and retired members. The benefits include a pension payable to former members and their dependents and a lump sum retirement allowance (for any member with service pre 1 April 2008). The scheme is administered locally by the Council and the fund is a separate entity from the Council and its accounts and balance sheet are separate financial statements.

The fund is financed by contributions from the Council, Pension Fund members and by income from the fund's investments. The Pension Fund accounts do not take account of liabilities to pay pensions and other benefits in the future. The contributions from the Council and other participating employers are set through the triennial actuarial valuation at a rate sufficient to meet the long-term liabilities of the fund.

Employers who contribute to the fund in addition to London Borough of Hillingdon are:

#### Admitted Bodies:

|                                     |                        |
|-------------------------------------|------------------------|
| Genuine Dining Ltd                  | Mitie Cleaning         |
| Greenwich Leisure                   | Mitie FM               |
| Heathrow Travel Care                | Stag Security Services |
| Hillingdon & Ealing Citizens Advice |                        |

#### Scheduled Bodies:

|                          |                           |
|--------------------------|---------------------------|
| Barnhill Academy         | London Housing Consortium |
| Belmore Academy          | Nanak Sar Primary School  |
| Bishop Ramsey Academy    | Northwood Academy         |
| Bishopshalt Academy      | Queensmead Academy        |
| Charville Academy        | Rosedale Hewens Academy   |
| Coteford Academy         | Stockley Academy          |
| Cranford Park Academy    | Swakeleys Academy         |
| Douay Martyrs Academy    | Willows Academy           |
| Eden Academy             | Uxbridge College          |
| Guru Nanak Sikh Academy  | Uxbridge Academy          |
| Harefield Academy        | Vyners Academy            |
| Haydon Academy           | Wood End Academy          |
| LBDS Frays Academy Trust |                           |

# Pension Fund Accounts and Net Asset Statement

## 1. DESCRIPTION OF FUND. (CONTINUED)

As at 31 March 2014 there were 7,524 active employees contributing to the fund, with 6,003 in receipt of benefit and 6,311 entitled to deferred benefits.

| London Borough of Hillingdon Pension Fund | 31 March 2014 | 31 March 2013 |
|---|---------------|---------------|
| Number of employers with active members   | 33            | 32            |
| <b>Number of employees in scheme</b>      |               |               |
| London Borough of Hillingdon              | 6,002         | 5,225         |
| Other employers                           | 1,522         | 988           |
| <b>Total</b>                              | <b>7,524</b>  | <b>6,213</b>  |
| <b>Number of Pensioners</b>               |               |               |
| London Borough of Hillingdon              | 5,505         | 5,047         |
| Other employers                           | 498           | 451           |
| <b>Total</b>                              | <b>6,003</b>  | <b>5,498</b>  |
| <b>Deferred pensioners</b>                |               |               |
| London Borough of Hillingdon              | 4,980         | 4,671         |
| Other employers                           | 1,331         | 1,212         |
| <b>Total</b>                              | <b>6,311</b>  | <b>5,883</b>  |

The pension fund investments are managed externally by fund managers: Adams Street Partners, Barings Global Asset Management, JP Morgan Asset Management, Kempen International Investments, LGT Capital Partners, Macquarie Investment, Newton Asset Management, Ruffer LLP, State Street Global Advisors and UBS Global Asset Management. In addition there is one direct investment in a pooled fund vehicle with M&G Investments.

The fund is overseen by the Pensions Committee, which is a committee of London Borough of Hillingdon, the administering authority. The performance of the fund managers is monitored by the Pensions Committee that consisted of the following members in 2013/14:

### Pensions Committee

Cllr Philip Corthorne (Chairman)

Cllr Michael Markham (Vice-Chairman)

Cllr David Simmonds

Cllr Raymond Graham

Cllr Paul Harmsworth

Cllr Janet Duncan

Mr Andrew Scott (Active Scheme Member Representative) (Non Voting)

Mr John Holroyd (Pensioner/Deferred Scheme Member Representative)  
(Non Voting)

## 2. BASIS OF PREPARATION

The accounts have been compiled in accordance to the CIPFA Code of Practice on Local Authority accounting in the United Kingdom 2013/14 and underpinned by Local Government Pension Scheme (Management & Investments of Funds) Regulations 2009. The accounting policies have been drawn up in line with recommended accounting principles as specified in the Code of Practice on Local Authority Accounting and disclosed below.

## 3. ACCOUNTING POLICIES

a) Accounts Preparation - The accounts have been prepared in accordance with the recommendations of CIPFA and comply with both the Local Authority Accounting and Pension Statement of Recommended Practice.

b) Accruals concept - Income and expenditure are recorded on an accruals basis, except for transfer values which are accounted on a cash basis. Group transfers are accounted for under the agreement which they are made.

# Pension Fund Accounts and Net Asset Statement

## 3. ACCOUNTING POLICIES (CONTINUED)

c) Valuation of assets - Market-quoted investments: Equities are valued at bid market prices available on the final day of the accounting period. Fixed income securities including short-term instruments are priced based on evaluated prices provided by independent pricing services. For pooled funds, if bid prices are provided by the fund administrators then these are used, otherwise the Net Asset Value is used. Private Equity is valued using the latest audited valuation from the Limited Partner/General Partner. This is adjusted for any capital calls/distributions that have taken place since the date of the statement. Unquoted investments for private placements and infrastructure are priced using discounted cash flow methodology. All assets are disclosed in the financial statements at their fair value.

d) Foreign currency translation of assets and liabilities and forward foreign exchange contracts are converted into sterling at the closing middle rates of exchange in the net assets statement. Overseas income is converted at rates of exchange ruling when remitted.

e) Acquisition costs of investments occur as brokerage commission when investments are purchased. They are recorded in the cost figure on an accruals basis.

f) Investment management expenses are recorded at cost when the fund managers/custodian invoice the Fund on a quarterly basis. Expenses are recorded on an accruals basis.

g) Administration expenses recharged to the pension fund are monitored throughout the year in accordance with the budget and are charged to the pension fund at the end of the financial year.

h) Interest on property developments - Property is held in unit trusts for the pension fund, the return received is calculated in accordance with the unit price at the Net Assets Statement date.

i) Contributions - are accounted for in the period in which they fall due. Normal contributions received during the year are in accordance with the rates and adjustments certificate.

j) Benefits - are accounted for in the period in which they fall due. All benefits are calculated in accordance with the statutory regulations in force at the relevant benefit date.

k) Transfers - are accounted for on a cash basis, as the amount payable or receivable by the scheme is not determined until payment is actually made and accepted by the recipient.

l) Investment Income - Dividends from quoted securities are accrued when the securities are quoted ex-dividend. Interest on cash deposits are accrued on daily basis.

### Critical Judgements and Uncertainties

m) Unquoted private equity investments - Fair value of private equity investments are highly subjective in nature. They are inherently based on forward-looking estimates and judgements involving many factors. Unquoted private equities are valued by investment managers using IFRS fair value principles and guidelines set out by the International Private Equity and Venture Capital Association (IPEV), which the British Venture Capital Association is a founding member. The Value of unquoted private equities at 31 March 2014 was £37,146k (£39,617k at 31 March 2013).

n) Assumptions made about the future and other major sources of estimation uncertainty - The Statement of Accounts contains estimated figures that are based on assumptions made by the fund about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates. The items in the net assets statement at 31 March 2014 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

| Item           | Uncertainties   | Effect if actual results differ from assumptions   |
|----------------|---|--|
| Private equity | Private equity investments are valued at fair value in accordance with British Venture Capital Association guidelines or commensurate overseas equivalent. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation. | The total private equity investments in the financial statements are £37,146k. There is a risk that this investment may be under- or overstated in the accounts. |



# Pension Fund Accounts and Net Asset Statement

## 4. CONTRIBUTIONS

|                          | 31 March 2014<br>£000's | Restated<br>31 March 2013<br>£000's |
|--------------------------|-------------------------|-------------------------------------|
| <b>Employers</b>         |                         |                                     |
| Normal                   | 21,098                  | 20,054                              |
| Deficit funding          | 5,160                   | 3,673                               |
| <b>Members</b>           |                         |                                     |
| Normal                   | 8,133                   | 7,920                               |
| Additional contributions | 708                     | 224                                 |
|                          | <b>35,099</b>           | <b>31,871</b>                       |

Deficit Funding:- At the actuarial valuation on 31 March 2010 the fund was 78% funded, with the remaining 22% deficit to be recovered over a period of 25 years with a common contribution rate of 22.4%.

Employers Normal and Deficit Funding has been restated from the published accounts to reflect a change in calculation methodology. The impact of the restatement was that, a) Deficit Funding was overstated by £3m and Normal contributions was understated by same amount. b) The overall net effect was nil.

**NOTE:-** At the latest actuarial valuation on 31 March 2013 the fund was 72% funded, with the remaining 28% deficit to be recovered over a period of 25 years with a common contribution rate of 28.7%. This is further detailed in Note 18 and is effective from 01 April 2014.

| Schedule of contributions by body | 31 March 2014<br>£000's | 31 March 2013<br>£000's |
|-----------------------------------|-------------------------|-------------------------|
| <b>Employers</b>                  |                         |                         |
| LB Hillingdon                     | 20,733                  | 19,118                  |
| Scheduled Bodies                  | 5,250                   | 4,286                   |
| Admitted Bodies                   | 275                     | 323                     |
| <b>Members</b>                    |                         |                         |
| LB Hillingdon                     | 6,983                   | 6,639                   |
| Scheduled Bodies                  | 1,765                   | 1,400                   |
| Admitted Bodies                   | 93                      | 105                     |
|                                   | <b>35,099</b>           | <b>31,871</b>           |

## 5. TRANSFERS IN

|  | 31 March 2014<br>£000's | 31 March 2013<br>£000's |
|--|-------------------------|-------------------------|
| Individual transfers in from other schemes | 750                     | 284                     |

## 6. BENEFITS

|                                      | 31 March 2014<br>£000's | 31 March 2013<br>£000's |
|--------------------------------------|-------------------------|-------------------------|
| Pensions                             | (28,114)                | (26,818)                |
| Commutations and lump sum retirement | (6,105)                 | (4,496)                 |
| Lump sum death benefits              | (529)                   | (110)                   |
|                                      | <b>(34,748)</b>         | <b>(31,424)</b>         |

| Schedule of benefits by employer | 31 March 2014<br>£000's | 31 March 2013<br>£000's |
|----------------------------------|-------------------------|-------------------------|
| LB Hillingdon                    | (34,205)                | (30,950)                |
| Scheduled Bodies                 | (450)                   | (380)                   |
| Admitted Bodies                  | (93)                    | (94)                    |
|                                  | <b>(34,748)</b>         | <b>(31,424)</b>         |



# Pension Fund Accounts and Net Asset Statement

## 7. PAYMENTS TO AND ON ACCOUNT OF LEAVERS

|   | 31 March 2014<br>£000's | 31 March 2013<br>£000's |
|---|-------------------------|-------------------------|
| Individual transfers out to other schemes | 2,890                   | 1,957                   |
|   | <b>2,890</b>            | <b>1,957</b>            |

## 8. ADMINISTRATIVE EXPENSES

|                               | 31 March 2014<br>£000's | 31 March 2013<br>£000's |
|-------------------------------|-------------------------|-------------------------|
| Administration and processing | 525                     | 545                     |
| Audit fee                     | 18                      | 21                      |
| Actuarial fee                 | 67                      | 23                      |
|                               | <b>610</b>              | <b>589</b>              |

## 9. INVESTMENT INCOME

|  | 31 March 2014<br>£000's | 31 March 2013<br>£000's |
|--|-------------------------|-------------------------|
| Dividends from equities                                | 6,668                   | 6,662                   |
| Income from fixed interest Securities                  | 40                      | 0                       |
| Income from index-linked securities                    | 334                     | 396                     |
| Income from pooled investment vehicles                 | 1,818                   | 1,988                   |
| Interest on cash deposits                              | 157                     | 118                     |
| Other (for example from stock lending or underwriting) | 6,529                   | 4,890                   |
|  | <b>15,546</b>           | <b>14,054</b>           |

## 10. INVESTMENT ASSETS

|                                | Value<br>1 April 2013<br>£000's | Purchases at<br>cost<br>£000's | Sales<br>proceeds<br>£000's | Change in<br>market value<br>£000's | Value<br>31 March 2014<br>£000's |
|--------------------------------|---------------------------------|--------------------------------|-----------------------------|-------------------------------------|----------------------------------|
| Equities                       | 193,554                         | 180,724                        | (218,069)                   | (8,151)                             | 148,058                          |
| Index-linked securities        | 42,174                          | 35,215                         | (32,170)                    | (9,856)                             | 35,363                           |
| Pooled investment vehicles     | 415,149                         | 85,467                         | (28,229)                    | 49,798                              | 522,185                          |
|                                | <b>650,877</b>                  | <b>301,406</b>                 | <b>(278,468)</b>            | <b>31,791</b>                       | <b>705,606</b>                   |
| Other investment balances      | 3,048                           |                                |                             | 2,542                               | 1,131                            |
| Fund managers' cash            | 29,059                          |                                |                             | (220)                               | 18,373                           |
| <b>Total Investment Assets</b> | <b>682,984</b>                  |                                |                             | <b>34,113</b>                       | <b>725,110</b>                   |

The change in market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments. The carrying amount of all assets is quoted at fair value.

Transaction costs are included in the cost of purchases and sale proceeds. These include costs charged directly to the scheme such as fees, commissions, stamp duty and other fees. Transaction costs incurred during the year amounted to £539k (£357k in 2012/13). In addition to these costs, indirect costs are incurred through the bid-offer spread on investments within pooled investment vehicles.

# Pension Fund Accounts and Net Asset Statement

## 10. INVESTMENT ASSETS (CONTINUED)

### Investment Assets and Liabilities by Fund Manager

| Fund Manager                           | Market Value<br>31 March 2014<br>£000's | Market Value<br>31 March 2013<br>£000's |
|--|---|---|
| Adams Street Partners                  | 22,459                                  | 23,366                                  |
| Barings Global Asset Management        | 63,046                                  | 0                                       |
| JP Morgan Asset Management             | 77,397                                  | 74,981                                  |
| Kempen International Investments       | 77,356                                  | 46,884                                  |
| LGT Capital Partners                   | 17,257                                  | 18,215                                  |
| M&G Investments                        | 25,912                                  | 16,351                                  |
| Macquarie Infrastructure               | 5,858                                   | 8,536                                   |
| Newton Asset Management                | 23,618                                  | 22,819                                  |
| Ruffer LLP                             | 84,447                                  | 131,368                                 |
| State Street Global Advisors           | 143,802                                 | 142,038                                 |
| UBS Global Asset Management (Equities) | 115,829                                 | 135,737                                 |
| UBS Global Asset Management (Property) | 54,368                                  | 48,574                                  |
| UBS TAA                                | 12,873                                  | 0                                       |
| Other*                                 | 239                                     | 10,683                                  |
| <b>Total</b>                           | <b>724,461</b>                          | <b>679,552</b>                          |

\* Other includes transition assets, pending trades and recoverable tax

### Forward Foreign Exchange Contracts

| Counterparty and Currency     | Bought<br>£000's | Sold<br>£000's | Unrealised<br>Change £000's | Trade Date | Settle Date |
|-------------------------------|------------------|----------------|-----------------------------|------------|-------------|
| Northern Trust GBP - JPY      | 14,206           | 14,060         | 146                         | 13/01/2014 | 14/04/2014  |
| Northern Trust JPY - GBP      | 1,675            | 1,679          | (4)                         | 17/01/2014 | 14/04/2014  |
| Northern Trust JPY - GBP      | 3,381            | 3,441          | (60)                        | 24/01/2014 | 14/04/2014  |
| Northern Trust JPY - GBP      | 1,655            | 1,664          | (9)                         | 05/03/2014 | 14/04/2014  |
| Northern Trust JPY - GBP      | 1,755            | 1,779          | (24)                        | 17/03/2014 | 14/04/2014  |
| Northern Trust GBP - EUR      | 23,781           | 23,661         | 120                         | 06/02/2014 | 13/05/2014  |
| Northern Trust GBP - USD      | 7,701            | 7,598          | 103                         | 11/02/2014 | 15/05/2014  |
| Northern Trust GBP - EUR      | 1,808            | 1,792          | 16                          | 10/03/2014 | 13/06/2014  |
| <b>Total unrealised gains</b> | <b>55,962</b>    | <b>55,674</b>  | <b>288</b>                  |            |             |

As at 31 March 2014 eight forward foreign exchange contracts were in place for £55,674k with unrealised gain of £288k. The objective of these contracts is to offset exposure to changes and fluctuations in currency exchange rates with the goal of minimising exposure to unwanted risk. Any gain or loss in the contract will be offset by an equivalent movement in the underlying asset value if converted into sterling.

### Investment Assets by Asset Class

|   | 31 March 2014<br>£000's | 31 March 2013<br>£000's |
|---|-------------------------|-------------------------|
| <b>Equities</b>   |                         |                         |
| UK quoted   | 121,335                 | 147,385                 |
| Overseas quoted   | 26,723                  | 46,169                  |
|   | <b>148,058</b>          | <b>193,554</b>          |
| <b>Index Linked Securities</b>                                    |                         |                         |
| UK Public Sector quoted   | 14,006                  | 21,428                  |
| Overseas Public Sector Quoted                                     | 21,357                  | 20,746                  |
|   | <b>35,363</b>           | <b>42,174</b>           |
| <b>Pooled Investment Vehicles</b>                                 |                         |                         |
| UK Managed funds - other  | 364,199                 | 260,800                 |
| UK Unit Trusts - property   | 50,427                  | 46,465                  |
| Overseas Unit Trusts - other                                      | 70,413                  | 68,267                  |
| Private Equity  | 37,146                  | 39,617                  |
|   | <b>522,185</b>          | <b>415,149</b>          |
| <b>Other Investment balances</b>                                  |                         |                         |
| Forward foreign exchange unrealised gain                          | 288                     | 0                       |
| Amount due from brokers   | 0                       | 1,615                   |
| Outstanding dividend entitlements and recoverable withholding tax | 843                     | 1,433                   |
|   | <b>1,131</b>            | <b>3,048</b>            |
| <b>Cash deposits</b>  |                         |                         |
| Sterling  | 18,373                  | 29,059                  |
|   | <b>18,373</b>           | <b>29,059</b>           |
|   | <b>725,110</b>          | <b>682,984</b>          |

NB: There are no investments that are more than 5% of the Net Asset Value

# Pension Fund Accounts and Net Asset Statement

## 10. INVESTMENT ASSETS (CONTINUED)

### AVC Investments

Additional voluntary contributions paid by scheme members are not included in the accounts in accordance with Regulation 5(2)(c) of the Pension Scheme (Management and Investment of Funds) Regulations 1998. The additional voluntary contributions are paid by scheme members directly to Prudential Assurance Company, who manage these monies independently of the fund and, as determined by the fund actuary, do not form part of the fund valuation.

According to information provided by Prudential, the fund's AVC provider, value of assets under management as at 31 March 2014 was £5,035k and as at 31 March 2013 £5,298k. Any transfer of additional contributions into the fund during the year are included in the transfer value as detailed in note 5.

## 11. INVESTMENT LIABILITIES

|  | 31 March 2014<br>£000's | 31 March 2013<br>£000's |
|--|-------------------------|-------------------------|
| Amount outstanding to brokers            | (649)                   | (3,351)                 |
| Forward foreign exchange unrealised loss | 0                       | (81)                    |
|  | <b>(649)</b>            | <b>(3,432)</b>          |

## 12. INVESTMENT MANAGEMENT EXPENSES

|  | 31 March 2014<br>£000's | 31 March 2013<br>£000's |
|--|-------------------------|-------------------------|
| Administration, management and custody | (3,704)                 | (3,796)                 |
| Performance measurement services       | (10)                    | (12)                    |
| Other advisory fees                    | (55)                    | (114)                   |
|  | <b>(3,769)</b>          | <b>(3,922)</b>          |

## 13. CURRENT ASSETS

|                                      | 31 March 2014<br>£000's | 31 March 2013<br>£000's |
|--------------------------------------|-------------------------|-------------------------|
| Employers' contributions due         | 197                     | 157                     |
| Employees' contributions due         | 65                      | 56                      |
| Debtor: London Borough of Hillingdon | 266                     | 215                     |
| Debtor: Other Entities               | 7                       | 4                       |
| Cash balances                        | 2,267                   | 3,926                   |
|                                      | <b>2,802</b>            | <b>4,358</b>            |

NB: The current assets all relate to amounts due from local government bodies with the exception of cash balances which is held with bodies external to government.

## 14. CURRENT LIABILITIES

|  | 31 March 2014<br>£000's | 31 March 2013<br>£000's |
|--|-------------------------|-------------------------|
| Creditor: Other Entities               | (721)                   | (849)                   |
| Creditor: London Borough of Hillingdon | (6)                     | (9)                     |
|  | <b>(727)</b>            | <b>(858)</b>            |

NB: The total of £721k other entities is due to bodies external to government, namely investment managers.

# Pension Fund Accounts and Net Asset Statement

## 15. FINANCIAL INSTRUMENTS

### a) Classification of Financial Instruments

|                               | 31 March 2014<br>£000's | 31 March 2013<br>£000's |
|-------------------------------|-------------------------|-------------------------|
| <b>Financial Assets</b>       |                         |                         |
| Fixed Interest Securities     | 35,363                  | 42,174                  |
| Equities                      | 148,058                 | 193,554                 |
| Pooled Investments            | 429,343                 | 321,011                 |
| Pooled Property Investments   | 50,427                  | 46,465                  |
| Private Equity/Infrastructure | 42,415                  | 47,673                  |
| Derivative Contracts          | 288                     | 0                       |
| Cash                          | 18,373                  | 29,059                  |
| Debtors                       | 843                     | 3,048                   |
|                               | <b>725,110</b>          | <b>682,984</b>          |
| <b>Financial Liabilities</b>  |                         |                         |
| Derivative Contracts          | 0                       | (81)                    |
| Creditors                     | (649)                   | (3,351)                 |
|                               | <b>(649)</b>            | <b>(3,432)</b>          |
|                               | <b>724,461</b>          | <b>679,552</b>          |

### b) Net Gains and Losses on Financial Instruments

|                                    | 31 March 2014<br>£000's | 31 March 2013<br>£000's |
|------------------------------------|-------------------------|-------------------------|
| <b>Financial Assets</b>            |                         |                         |
| Fair Value through profit and loss | 33,366                  | 61,985                  |
| <b>Financial Liabilities</b>       |                         |                         |
| Fair Value through profit and loss | 288                     | (81)                    |
|                                    | <b>33,654</b>           | <b>61,904</b>           |

### c) Fair Value of Financial Instruments and liabilities

|                                    | 31 March 2014<br>£000's<br>Fair Value | 31 March 2014<br>£000's<br>Carrying Value | 31 March 2013<br>£000's<br>Fair Value | 31 March 2013<br>£000's<br>Carrying Value |
|------------------------------------|---------------------------------------|---|---------------------------------------|---|
| <b>Financial Assets</b>            |                                       |   |                                       |   |
| Fair Value through profit and loss | 705,606                               | 705,606                                   | 650,877                               | 650,877                                   |
| Loans and receivables              | 19,504                                | 19,504                                    | 32,107                                | 32,107                                    |
| <b>Total Financial assets</b>      | <b>725,110</b>                        | <b>725,110</b>                            | <b>682,984</b>                        | <b>682,984</b>                            |
| <b>Financial Liabilities</b>       |                                       |   |                                       |   |
| Fair Value through profit and loss | (649)                                 | (649)                                     | (3,432)                               | (3,432)                                   |
| Loans and receivables              | 0                                     | 0   | 0                                     | 0   |
| <b>Total Financial Liabilities</b> | <b>(649)</b>                          | <b>(649)</b>                              | <b>(3,432)</b>                        | <b>(3,432)</b>                            |

# Pension Fund Accounts and Net Asset Statement

## 15. FINANCIAL INSTRUMENTS (CONTINUED)

### d) Valuation of financial instruments carried at fair value

| Values as at 31 March 2014                                  | Quoted         | Using Observable | With Significant    | Totals         |
|---|----------------|------------------|---------------------|----------------|
|   | Market Price   | Inputs           | unobservable inputs |                |
|   | Level 1        | Level 2          | Level 3             |                |
|   | £000's         | £000's           | £000's              | £000's         |
| Financial assets at fair value through profit and loss      | 586,941        | 50,427           | 68,238              | 705,606        |
| Loans and Receivables                                       | 12,316         | 3,940            | 3,248               | 19,504         |
| <b>Total Financial Assets</b>                               | <b>599,257</b> | <b>54,367</b>    | <b>71,486</b>       | <b>725,110</b> |
| <b>Financial Liabilities</b>                                |                |                  |                     |                |
| Financial Liabilities at fair value through profit and loss | (649)          | 0                | 0                   | (649)          |
| <b>Total Financial Liabilities</b>                          | <b>(649)</b>   | <b>0</b>         | <b>0</b>            | <b>(649)</b>   |
| <b>Net Financial Assets</b>                                 | <b>598,608</b> | <b>54,367</b>    | <b>71,486</b>       | <b>724,461</b> |

| Values as at 31 March 2013                                  | Quoted         | Using Observable | With Significant    | Totals         |
|---|----------------|------------------|---------------------|----------------|
|   | Market Price   | Inputs           | unobservable inputs |                |
|   | Level 1        | Level 2          | Level 3             |                |
|   | £000's         | £000's           | £000's              | £000's         |
| Financial assets at fair value through profit and loss      | 540,671        | 46,465           | 63,741              | 650,877        |
| Loans and Receivables                                       | 27,270         | 2,109            | 2,728               | 32,107         |
| <b>Total Financial Assets</b>                               | <b>567,941</b> | <b>48,574</b>    | <b>66,469</b>       | <b>682,984</b> |
| <b>Financial Liabilities</b>                                |                |                  |                     |                |
| Financial Liabilities at fair value through profit and loss | (3,432)        | 0                | 0                   | (3,432)        |
| <b>Total Financial Liabilities</b>                          | <b>(3,432)</b> | <b>0</b>         | <b>0</b>            | <b>(3,432)</b> |
| <b>Net Financial Assets</b>                                 | <b>564,509</b> | <b>48,574</b>    | <b>66,469</b>       | <b>679,552</b> |

## 16. PRIVATE EQUITY VALUATIONS

The Investment Sub Committee (ISC) have undertaken a review of the valuation processes for the Private Equity funds managed by Adams Street Partners and LGT Partners on behalf of the London Borough of Hillingdon Pension Fund and considered their valuation processes adopted for illiquid markets. The ISC are assured that the valuation processes are rigorous and result in valuations that, within materiality, represents fair value at the reporting date.

## 17. NATURE & EXTENT OF EXPOSURE TO RISKS ARISING FROM FINANCIAL INSTRUMENTS

### Risk and risk management

The fund's primary long-term risk is that the fund's assets will fall short of its liabilities. Therefore the aim of investment risk management is to minimise the risk of an overall reduction in the value of the fund and to maximise the opportunity for gains across the whole fund portfolio. The Fund achieves this through asset diversification to reduce exposure to market risk (price risk, currency and interest rate risks) and credit risk to an acceptable level. In addition, the fund manages its liquidity risk to ensure there is sufficient liquidity to meet the fund's forecast cash flows.

Responsibility for the fund's risk management strategy rests with the Pension Fund Committee. Risk management policies are established to identify and analyse the risks faced by the Council's pensions operations. Policies are reviewed regularly to reflect changes in activity and in market conditions.

**Market risk** - The risk that the fair value of cash flows of a financial instrument will fluctuate due to changes in market prices. Market risk reflects interest rate risk, currency risk and other price risks. To mitigate against market risk the Pension Fund invests in a diversified pool of assets to ensure a reasonable balance between different categories. The management of the assets are placed with a number of fund managers with different performance targets and investment strategies. Each Fund manager is expected to maintain a diversified portfolio in each asset class. Risks associated with the strategy and investment returns are included as part of the quarterly reporting to Pensions Committee where they are monitored and reviewed.

# Pension Fund Accounts and Net Asset Statement

## 17. NATURE & EXTENT OF EXPOSURE TO RISKS ARISING FROM FINANCIAL INSTRUMENTS (CONTINUED)

Other price risk - Other price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether those changes are caused by factors specific to the individual instruments or its issuer or factors affecting all such instruments in the market. The fund is exposed to share and derivative price risk. This arises from investments held by the fund for which the future price is uncertain. All securities investments present a risk of loss of capital. Except for shares sold short, the maximum risk resulting from financial instruments is determined by the fair value of the financial instruments. Possible losses from shares sold short is unlimited. The fund's investment managers mitigate this price risk through diversification and the selection of securities and other financial instruments is monitored by the Council to ensure it is within limits specified in the fund investment strategy statement.

### Other price risk - Sensitivity Analysis

Following analysis of historical data and expected investment return movement during the financial year, the fund has determined that the following movements in market price risk are reasonably possible for the 2014/15 reporting period.

| Asset Type  | Potential market movements (+/-) |
|---|----------------------------------|
| UK quoted equities                                    | 11.73%                           |
| Overseas quoted equities                              | 9.97%                            |
| UK Public Sector quoted Index-Linked Securities       | 6.73%                            |
| Overseas Public Sector quoted Index-Linked Securities | 6.73%                            |
| Corporate Bonds                                       | 4.11%                            |
| UK Managed funds - other                              | 11.73%                           |
| UK Unit Trusts - property                             | 2.38%                            |
| Overseas Unit Trusts - other                          | 9.97%                            |
| Private Equity  | 5.41%                            |

The potential price changes disclosed above are broadly consistent with a one-third standard deviation movement in the value of the assets. The analysis assumes that all other variables, in particular foreign currency exchange rates and interest rates, remain the same. Had the market price of the fund investments increased/decreased in line with the above, the change in the net assets available to pay benefits in the market price would have been as follows:

# Pension Fund Accounts and Net Asset Statement

## 17. NATURE & EXTENT OF EXPOSURE TO RISKS ARISING FROM FINANCIAL INSTRUMENTS (CONTINUED)

| Asset type  | Value as at<br>31 March 2014 | Percentage Change | Value on Increase | Value on Decrease |
|---|------------------------------|-------------------|-------------------|-------------------|
|   | £000's                       | %                 | £000's            | £000's            |
| <b>Cash and Cash equivalents</b>                      | 18,373                       | 0.00              | 18,373            | 18,373            |
| <b>Investment Assets</b>                              |                              |                   |                   |                   |
| UK quoted equities                                    | 121,335                      | 11.73             | 135,568           | 107,102           |
| Overseas quoted equities                              | 26,723                       | 9.97              | 29,387            | 24,059            |
| UK Public Sector quoted Index-Linked Securities       | 14,006                       | 6.73              | 14,949            | 13,063            |
| Overseas Public Sector quoted Index-Linked Securities | 21,357                       | 6.73              | 22,794            | 19,920            |
| UK Managed funds - Equities                           | 155,020                      | 11.73             | 173,204           | 136,836           |
| UK Managed funds - Bonds                              | 68,407                       | 4.11              | 71,219            | 65,595            |
| UK Unit Trusts - property                             | 50,427                       | 2.38              | 51,627            | 49,227            |
| Overseas Unit Trusts - Equities                       | 136,622                      | 9.97              | 150,243           | 123,001           |
| Overseas Unit Trusts - Bonds                          | 69,294                       | 4.11              | 72,142            | 66,446            |
| Private Equity/Infrastructure                         | 42,415                       | 5.41              | 44,710            | 40,120            |
| Net Derivative assets                                 | 288                          | 0.00              | 288               | 288               |
| Investment income due                                 | 843                          | 0.00              | 843               | 843               |
| Amounts receivable for sales                          | 0                            | 0.00              | 0                 | 0                 |
| Amounts payable for purchases                         | (649)                        | 0.00              | (649)             | (649)             |
| <b>Total Assets Available to pay benefits</b>         | <b>724,461</b>               |                   | <b>784,698</b>    | <b>664,225</b>    |

| Asset type  | Value as at<br>31 March 2013 | Percentage Change | Value on Increase | Value on Decrease |
|---|------------------------------|-------------------|-------------------|-------------------|
|   | £000's                       | %                 | £000's            | £000's            |
| <b>Cash and Cash equivalents</b>                      | 29,059                       | 0.00              | 29,059            | 29,059            |
| <b>Investment Assets</b>                              |                              |                   |                   |                   |
| UK quoted equities                                    | 147,385                      | 12.90             | 166,398           | 128,372           |
| Overseas quoted equities                              | 46,169                       | 11.80             | 51,617            | 40,721            |
| UK Public Sector quoted Index-Linked Securities       | 21,428                       | 6.50              | 22,821            | 20,035            |
| Overseas Public Sector quoted Index-Linked Securities | 20,746                       | 6.50              | 22,094            | 19,938            |
| UK Managed funds - Equities                           | 100,447                      | 12.90             | 113,405           | 87,489            |
| UK Managed funds - Bonds                              | 53,742                       | 4.00              | 55,892            | 51,592            |
| UK Unit Trusts - property                             | 46,465                       | 2.30              | 47,534            | 45,396            |
| Overseas Unit Trusts - Equities                       | 94,622                       | 11.80             | 105,787           | 83,457            |
| Overseas Unit Trusts - Bonds                          | 72,200                       | 4.00              | 75,088            | 69,312            |
| Private Equity/Infrastructure                         | 47,673                       | 4.70              | 49,913            | 45,432            |
| Net Derivative assets                                 | (81)                         | 0.00              | (81)              | (81)              |
| Investment income due                                 | 1,433                        | 0.00              | 1,433             | 1,433             |
| Amounts receivable for sales                          | 1,615                        | 0.00              | 1,615             | 1,615             |
| Amounts payable for purchases                         | (3,351)                      | 0.00              | (3,351)           | (3,351)           |
| <b>Total Assets Available to pay benefits</b>         | <b>679,552</b>               |                   | <b>739,224</b>    | <b>620,419</b>    |

# Pension Fund Accounts and Net Asset Statement

## 17. NATURE & EXTENT OF EXPOSURE TO RISKS ARISING FROM FINANCIAL INSTRUMENTS (CONTINUED)

**Interest Rate Risk** is the risk to which the Pension Fund is exposed to changes in interest rates and relates to its holdings in bonds and cash. Based on interest received on fixed interest securities, cash balances and cash and cash equivalents.

The fund's direct exposure to interest rate movements as at 31 March 2014 and 31 March 2013 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value.

| <b>Asset Type</b>         | <b>31 March 2014<br/>£000's</b> | <b>31 March 2013<br/>£000's</b> |
|---------------------------|---------------------------------|---------------------------------|
| Cash equivalents          | 0                               | 2,488                           |
| Cash                      | 18,373                          | 26,571                          |
| Fixed Interest Securities | 173,064                         | 168,117                         |
| <b>Total</b>              | <b>191,437</b>                  | <b>197,176</b>                  |

**Interest rate risk sensitivity analysis** - The fund recognises that interest rates can vary and can affect both income to the fund and the value of net assets available to pay benefits. A 100 basis points (1%) movement in interest rates is consistent with the level of sensitivity applied as part of the fund's risk management strategy.

The analysis that follows assumes that all other variables, in particular exchange rates remain constant, and shows the effect in the year on the net assets available to pay benefits of a +/- 1% change in interest rates.

| <b>Asset Type</b>                       | <b>Carrying amount<br/>31 March 2014</b> | <b>Change in the net assets available to pay<br/>benefits</b> |                |
|---|--|---|----------------|
|   |  | <b>1%</b>   | <b>-1%</b>     |
|   | <b>£000's</b>                            | <b>£000's</b>   | <b>£000's</b>  |
| Cash Equivalents                        | 0  | 0   | 0              |
| Cash                                    | 18,373                                   | 184   | (184)          |
| Fixed Interest Securities               | 173,064                                  | 1,730   | (1,730)        |
| <b>Total change in assets available</b> | <b>191,437</b>                           | <b>1,914</b>  | <b>(1,914)</b> |

| <b>Asset Type</b>                       | <b>Carrying amount as<br/>31 March 2013</b> | <b>Change in the net assets available to pay<br/>benefits</b> |                |
|---|---|---|----------------|
|   |   | <b>1%</b>   | <b>-1%</b>     |
|   | <b>£000's</b>                               | <b>£000's</b>   | <b>£000's</b>  |
| Cash Equivalents                        | 2,488                                       | 25  | (25)           |
| Cash                                    | 26,571                                      | 266   | (266)          |
| Fixed Interest Securities               | 168,117                                     | 1,681   | (1,681)        |
| <b>Total change in assets available</b> | <b>197,176</b>                              | <b>1,972</b>  | <b>(1,972)</b> |

Currency Risk is the risk to which the Pension fund is exposed to fluctuations in foreign currency exchange rates.

The Pension Fund has the ability to set up a passive currency hedge where these risks are perceived to be adverse. As at 31 March 2014 the Fund had a 100% Euro hedge in place for those managers who do not hedge their own portfolios. The following table summarises the fund's currency exposure as at 31 March 2014 and as at the previous period ending 31 March 2013.



# Pension Fund Accounts and Net Asset Statement

## 17. NATURE & EXTENT OF EXPOSURE TO RISKS ARISING FROM FINANCIAL INSTRUMENTS (CONTINUED)

### Currency exposure by asset type

|                               | Asset value<br>31 March 2014 | Asset value<br>31 March 2013 |
|-------------------------------|------------------------------|------------------------------|
|                               | £000's                       | £000's                       |
| Overseas quoted Securities    | 26,723                       | 46,169                       |
| Overseas Corporate Bonds      | 69,294                       | 72,200                       |
| Overseas Index-linked Bonds   | 21,357                       | 20,746                       |
| Overseas managed funds        | 136,622                      | 94,622                       |
| Private Equity/Infrastructure | 42,415                       | 47,673                       |
|                               | <b>296,411</b>               | <b>281,410</b>               |

**Currency risk sensitivity analysis** - Following analysis of historical data in consultation with WM Company, the funds data provider. The Fund considers the likely volatility associated with foreign exchange rate movements to be 4.32%, based on the data provided by WM. A 4.32% fluctuation in the currency is considered reasonable based on WM's analysis of historical movements in month end exchange rates over a rolling twelve month period. This analysis assumes that all variables, in particular interest rates, remain constant. A 4.32% strengthening/weakening of the pound against various currencies in which the fund holds investments would increase/decrease the net assets available to pay benefits as follows:

### Currency exposure by asset type

|                               | Asset value<br>31 March 2014 | Change in the net assets<br>available to pay benefits |                |
|-------------------------------|------------------------------|---|----------------|
|                               |                              | +4.32%  | -4.32%         |
|                               | £000's                       | £000's  | £000's         |
| Overseas quoted Securities    | 26,723                       | 27,877  | 25,569         |
| Overseas Corporate Bonds      | 69,294                       | 72,288  | 66,300         |
| Overseas Index-linked Bonds   | 21,357                       | 22,280  | 20,434         |
| Overseas managed funds        | 136,622                      | 142,524   | 130,720        |
| Private Equity/Infrastructure | 42,415                       | 44,247  | 40,583         |
|                               | <b>296,411</b>               | <b>309,216</b>  | <b>283,606</b> |

### Currency exposure by asset type

|                               | Asset value<br>31 March 2013 | Change in the net assets<br>available to pay benefits |                |
|-------------------------------|------------------------------|---|----------------|
|                               |                              | +5.6%   | -5.6%          |
|                               | £000's                       | £000's  | £000's         |
| Overseas quoted Securities    | 46,169                       | 48,754  | 43,584         |
| Overseas Corporate Bonds      | 72,200                       | 76,243  | 68,157         |
| Overseas Index-linked Bonds   | 20,746                       | 21,908  | 19,584         |
| Overseas managed funds        | 94,622                       | 99,921  | 89,323         |
| Private Equity/Infrastructure | 47,673                       | 50,343  | 45,003         |
|                               | <b>281,410</b>               | <b>297,169</b>  | <b>265,651</b> |

# Pension Fund Accounts and Net Asset Statement

## 17. NATURE & EXTENT OF EXPOSURE TO RISKS ARISING FROM FINANCIAL INSTRUMENTS (CONTINUED)

**Credit Risk** - The risk that one party to a financial instrument will cause a loss for the other party by failing to pay for its obligation.

The Pension Fund's entire investment portfolio is exposed to some form of credit risk, with the exception of the derivative position, where the risk equates to the net market value of a positive derivative position. Credit risk can be minimised through careful selection of high quality counterparties, brokers and financial institutions. The Pension Fund is also exposed to credit risk through Securities Lending, Forward Currency Contracts and its daily treasury activities. The Securities Lending programme is run by the Fund's custodian Northern Trust who assign four different risk management oversight committees to control counterparty risk, collateral risk and the overall securities lending programme. The minimum level of collateral for securities on loan is 102%, however more collateral may be required depending on the type of transaction. To further mitigate risks, the collateral held on behalf of the Pension Fund is ring fenced from Northern Trust. Securities lending is capped by investment regulations and statutory limits are in place to ensure no more than 25% of eligible assets can be on loan at any one time.

Forward Currency Contracts are with Northern Trust which holds a strong Standard & Poors credit rating of AA-. Their financial stability across a wide array of market and economic cycles is demonstrated by the fact that they have held this rating for the past twenty years. Their continued balance sheet strength and ratings outlook reflects the diversity of business, consistent financial performance and conservative approach. Their credit rating is regularly monitored along with market indicators and media coverage to ensure their credit worthiness is maintained.

The prime objective of the pension fund treasury management activity is the security of principal sums invested. As such it will take a prudent approach to organisations employed as the banker and deposit taker. The Pension Fund will ensure it has adequate but not excessive cash resources in order to meet its objectives. The bank accounts are held with HSBC which holds a AA- long term credit rating (or equivalent) and Natwest (A-) across three rating agencies and they maintain their status as well capitalised and strong financial organisations. Deposits are placed in the AAAM rated Northern Trust Money Market Fund ring fenced from the administering company. Credit ratings, market indicators and media coverage are monitored to ensure credit worthiness is maintained. The fund's cash holding under its treasury management arrangements at 31 March 2014 was £2,267k (31 March 2013: £16,046k) and this was held with the following institutions.

| Summary                               | Rating | Balances as at<br>31 March 2014<br>£000's | Rating | Balances as at<br>31 March 2013<br>£000's |
|---------------------------------------|--------|---|--------|---|
| <b>Money market funds</b>             |        |   |        |   |
| Northern Trust Global Sterling Fund A | AAAm   | 200                                       | AAAm   | 10,832                                    |
| SSgA Sterling Liquidity Fund Sub-Fund | AAAm   | 0   | AAAm   | 2,488                                     |
| <b>Bank current accounts</b>          |        |   |        |   |
| Natwest (Capita)                      | A-     | 949                                       | A-     | 1,169                                     |
| HSBC Plc                              | AA-    | 1,118                                     | AA-    | 1,557                                     |
| <b>Total</b>                          |        | <b>2,267</b>                              |        | <b>16,046</b>                             |

**Liquidity Risk** - The risk the Pension Fund will have difficulties in paying its financial obligations when they fall due.

The Pension Funds holds a working cash balance in its own bank accounts (HSBC and Natwest - Capita) and Money Market Fund to which it has instant access to cover the payment of benefits and other lump sum payments (£2,267k). At an investment level the fund holds a large proportion of assets in instruments which can be liquidated at short notice, normally three working days. As at the 31 March 2014 these assets totalled £586,941k, with a further £18,373k held in cash by fund managers.

# Pension Fund Accounts and Net Asset Statement

## 18. ACTUARIAL POSITION

The Fund's actuary, Hymans Robertson, carried out the latest triennial actuarial valuation of the fund as at 31 March 2013. On the basis of the assumptions adopted, the valuation showed that the value of the fund represented 72% of the fund's accrued liabilities at the valuation date. The total net assets of the fund at 31 March 2013 was £683,052k. The value of the deficit at that date was £266,000k.

The valuation exercise resulted in the revision of employers' contribution rates set to recover the deficiency over a period of 25 years. The total common contribution rate is 28.7% for the period of 1 April 2014 to 31 March 2017.

The contribution rates were calculated using the projected unit method and the main actuarial assumptions used were:

Price Inflation (CPI) - 2.50%

Funding Basis Discount Rate - 4.60%

Pay Increases - 3.30%

## 19. ACTUARIAL PRESENT VALUE OF PROMISED RETIREMENT BENEFITS

Following the introduction of IFRS the fund is now required under IAS 26 to disclose the actuarial present value of promised retirement benefits. The calculation of this disclosed amount must be determined in accordance with IAS 19. The general financial assumptions used in preparing the IAS26 valuation are summarised below:

| Description                       | 31 March 2014<br>% P.a. | 31 March 2013<br>% P.a. |
|-----------------------------------|-------------------------|-------------------------|
| Inflation /Pensions Increase Rate | 2.8%                    | 2.8%                    |
| *Salary Increase Rate             | 3.6%                    | 5.1%                    |
| Discount Rate                     | 4.3%                    | 4.5%                    |

\*Salary increase are assumed to be 1% p.a. until 31 March 2015 reverting to long term assumption shown thereafter

An IAS 26 valuation was carried out for the fund as at 31 March 2014 by Hymans Robertson LLP with the following results:

| Description                                   | 31 March 2014<br>£000's | 31 March 2013<br>£000's |
|---|-------------------------|-------------------------|
| Present Value of Promised Retirement Benefits | 1,102,000               | 1,066,000               |
| Assets  | 726,536                 | 683,052                 |
| Deficit                                       | 375,464                 | 382,948                 |

These figures are presented for the purposes of IAS 26 only. They are not relevant for the calculations undertaken for funding purposes or other statutory purposes under UK pensions legislation. This item is not recognised in the Net Asset Statement, hence is considered not to be in opposition to the assertion included in the Net asset Statement surrounding future liabilities of the fund.

## 20. RELATED PARTY TRANSACTIONS

It is required under IAS 24 "Related Party Disclosures" that material transactions with related parties which are not disclosed elsewhere should be included in a note to the financial statements.

The London Borough of Hillingdon is a related party to the pension fund. The revenue contributions the Council has made into the pension fund are set out in note (4) to the Pension Fund accounts.

No senior officers or Pension committee member had any interest with any related parties to the pension fund.

# Pension Fund Accounts and Net Asset Statement

## 20. RELATED PARTY TRANSACTIONS (CONTINUED)

### Governance

There were five members of the pension fund committee who were active members of the pension fund. These members are Cllr Philip Corthorne (Chairman), Cllr David Simmons, Cllr Paul Harmsworth, Cllr Janet Duncan and Cllr Richard Lewis. Each member is required to declare their interest at each meeting.

### Key management personnel

Two key employees of the London Borough of Hillingdon hold key positions in the financial management of the London Borough of Hillingdon Pension Fund. These employees and their financial relationship with the fund (expressed as cash-equivalent transfer values) are set out below:

|                                     | Accrued pension<br>31 March 2014<br>£000's | Accrued pension<br>31 March 2013<br>£000's |
|-------------------------------------|--|--|
| Corporate Director of Finance       | 1,128                                      | 1,107                                      |
| Deputy Director - Strategic Finance | 672  | 622  |

## 21. SECURITIES LENDING ARRANGEMENTS

On the 12th December 2006 the London Borough of Hillingdon Pension Fund Committee agreed to engage Northern Trust Global Investments Limited to carry out Securities Lending. As at 31 March 2014, securities worth £17,302k were on loan by Northern Trust from our portfolio and collateral worth £18,715k was held within the pool including Hillingdon. In the same period, a net income of £36k was received.

## 22. STATEMENT OF INVESTMENT PRINCIPLES (SIP)

The SIP is reviewed annually and a current version is available on the Pensions Fund pages of the Council's web site: [www.hillingdon.gov.uk](http://www.hillingdon.gov.uk) and included in the Annual Report.

## 23. BULK TRANSFER

There were no bulk transfers into or out of the Fund during the financial year 2013/14.

## 24. CONTINGENT LIABILITIES AND CONTRACTUAL COMMITMENTS

Outstanding capital commitments (investments) as at 31 March 2014 totalled £61,506k (31 March 2013: £45,175k). These commitments relate to outstanding call payments due on unquoted limited partnership funds held in the Private Equity, M&G, Infrastructure and secondary property parts of the portfolio. The amounts called by these funds vary both in size and timing over a period of between four and six years from the date of each original commitment.

## 25. CONTINGENT ASSETS

Three admitted body employers in the London Borough of Hillingdon Pension Fund hold insurance bonds to guard against the possibility of being unable to meet their pension obligations. These bonds are drawn in favour of the pension fund and payment will only be triggered in event of employer default.

## 26. POST BALANCE SHEET EVENTS

AEW UK Investment Ltd was appointed on 02 April, 2014 to manage about £15 million of the fund's assets in secondary property allocations. This was part of the fund's strive to increase returns and consequently improve funding position. On the same day, a further £15 million was committed to the M&G Debt Opportunities Fund II in addition to the previous £30 million already committed to two existing M&G funds. Funding for the cumulative £30 million allocation to AEW and M&G Debt Opportunities Fund II are to be derived from divestment from JP Morgan Asset Management Fund currently valued at £77 million. Due to the nature of the two new investments, the funds will be drawn-down by the two fund managers when required. As such, there is no need for transition management, as the JP Morgan fund is traded daily with a four day notice period for cash redemptions.

# London Borough of Hillingdon

## Annual Governance Statement 2013-14

### 1 Scope of Responsibility

The London Borough of Hillingdon is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The London Borough of Hillingdon also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, the London Borough of Hillingdon is responsible for putting in place proper arrangements for the governance of its affairs and facilitating the effective exercise of its functions that include arrangements for the management of risk.

The London Borough of Hillingdon is following a code of corporate governance, which is consistent with the principles of the CIPFA / SOLACE Framework '*Delivering Good Governance in Local Government*'. This statement explains how the authority has complied with the code and also meets the requirements of Regulation 4(3) of the Accounts and Audit Regulations 2011 in relation to the publication of an Annual Governance Statement.

### 2 The Purpose of the Governance Framework

The governance framework comprises the systems, processes, culture and values by which the authority is directed and controlled and its activities through which it accounts to, engages with and leads the community. It enables the authority to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can, therefore, only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the London Borough of Hillingdon's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

The governance framework has been in place at the London Borough of Hillingdon for the year ended 31 March 2014 and up to the date of approval of the Statement of Accounts.

### 3 The Governance Framework

The London Borough of Hillingdon has brought together the underlying set of statutory obligations, management systems and principles of good governance to establish a formal governance framework. The key elements outlined below demonstrate how Hillingdon maintains effective internal controls and an effective governance system.

- 1 **The London Borough of Hillingdon's Constitution**, sets out how the authority operates, how decisions are made, and the procedures that are followed to ensure that they are efficient, transparent and accountable to local people. The constitution is regularly reviewed at full Council meetings and also more comprehensively on an annual basis at each AGM.
- 2 Part 2 of the constitution outlines the **roles and responsibilities** of the Executive, Non-executive, Mayor, Overview and Scrutiny committees, Standards committee and officer functions. There is an ethical framework governing the conduct of members and co-opted members, introduced by the Localism Act 2011, which came into force on 1<sup>st</sup> July 2012. The governance arrangements for Hillingdon comprise:

- A structure of the Leader of the Council, a Cabinet and Policy Overview and Scrutiny Committees
  - A Corporate Management Team
  - Senior Management Teams
  - The Audit Committee, led by an independent chairman
  - Standards Committee and a Code of Conduct for Members and Co-opted Members
- 3 Part 2, article 7 of the Constitution sets out the '**Cabinet Scheme of Delegations**'. This governs the allocation of responsibilities and the discharge of executive functions by the Leader, the Cabinet and individual Cabinet members. This is regularly updated to reflect changes to Cabinet Member portfolio responsibilities in line with business priorities and Director's responsibilities. Executive decision-making is transparent and undertaken in accordance with regulations and the law, with flexibility for urgent decisions. Cabinet meetings are open to the public and media to attend and report on.
- 4 Part 2, articles 6 and 8 (including Part 4,E) set out how the Council's non-executive decisions by Members are taken. **Policy Overview and Scrutiny Committees** undertake regular monitoring of services, performance and the budget and an annual programme of major Member-led service reviews involving witness testimony aimed at influencing executive policy. Statutory scrutiny of health and police bodies is undertaken annually. Regulatory decisions on planning, licensing and related matters are undertaken judiciously by experienced and trained Elected Councillors, in accordance with the Council's high ethical standards. A new Major Applications Planning Committee established in 2013 has strengthened the way the Council determines major developments and commercial / business applications.
- 5 Part 3 of the Constitution sets out the '**Scheme of Delegations to Officers**'. This governs the responsibility allocated to officers of the London Borough of Hillingdon to perform the authority's activities. This is periodically updated to reflect the changes to Director's responsibilities in line with business priorities. Within this, each Directorate has individual Schemes of Delegations, setting out how Directors' responsibilities are sub-delegated. Following organisational restructuring, the scheme of delegations for Adult Social Care and Children and Young Peoples Services are in the process of being updated.
- 6 Part 5 of the Constitution sets out formal '**Codes of Conduct**' governing the behaviour and actions of all elected Council members and Council officers. An updated 'Code of Conduct for Members and Co-opted Members' was adopted on 5 July 2012 to meet the provisions of the Localism Act 2011. The code ensures that councillors conduct themselves appropriately to fulfil their duties and that any allegations of misconduct are investigated. There is a separate 'Code of Conduct for Employees', which applies to all Council officers and is part of their contract of employment. The authority regularly reviews the code and guidance to ensure these requirements reflect changes to the Council structure.
- 7 The Council, as opposed to adopting a Code of Corporate Governance ensures that Hillingdon's governance structure, decision making process and areas of responsibility are covered in the Council's Constitution and schemes of delegation.
- 8 **A Member training programme** is devised for each municipal year. Training on the new Code of Conduct took place in the Autumn of 2012, delivered by the Borough Solicitor and Head of Democratic Services and further training will be delivered to Members following the local elections in May 2014. Complaints about alleged breaches of the Code are handled in accordance with the requirements of the Localism Act 2011. A Whips Protocol has been introduced as part of the new framework and complainants are now expected to use it first, with complaints only to be escalated to the Monitoring Officer and Standards Committee if they cannot be resolved through this process. The Council has also put in place an induction and training programme for Members along with specific training on scrutiny, planning and

licensing rules.

- 9 **A Member 'Register of Interests'** records the interests of elected members of the London Borough of Hillingdon. There is a separate 'Related Parties' register that members and senior officers are required to complete each year declaring the relationship and nature of any related party transactions, which the authority has entered into.
- 10 **A Member / Officer Protocol** to govern and regulate the relationship between the London Borough of Hillingdon's elected members and appointed officers. This has been developed in consultation with the political leadership, all Council members and officers.
- 11 **A formal whistle-blowing policy**, which is based on the Public Interest Disclosure Act 1998, allows Council staff and contractors working for the authority to raise complaints regarding any behaviour or activity within the authority, ranging from unlawful conduct to possible fraud or corruption. The Monitoring Officer has overall responsibility for maintaining and operating the policy, along with reporting on outcomes to the Standards Committee. A recent Internal Audit review in this area identified some areas requiring improvements relating to the process surrounding the recording of whistle-blowing allegations to ensure the right officers are promptly notified and sufficient records are maintained.
- 12 **The London Borough of Hillingdon** has set out its vision of 'Putting Our Residents First' and established four priority themes for delivering efficient, effective and value for money services. The priority themes are; 'Our People, 'Our Heritage, 'Our Environment' and 'Sound Financial Management'. The delivery of these priorities will be achieved through a combination of strategic management programmes, which include: the Hillingdon Improvement Programme, Business Improvement Delivery programme and the financial and service planning process (Medium Term Financial Forecast).
- 13 **The Hillingdon Improvement Programme (HIP)** is Hillingdon's strategic improvement programme which aims to deliver excellence as set out in the Council vision – 'Putting Our Residents First'. The HIP Vision is to build a more customer focused organisation, to modernise business processes and to free up resources to provide improved services for our residents. HIP has helped to change the culture of the organisation and to improve the services delivered to residents. This can be evidenced through the high satisfaction rates received from residents about customer care, waste and recycling services, libraries, our primary and secondary schools and how well they feel informed, through regular feedback. HIP is consistently trying to improve Hillingdon by continuing to deliver a range of innovative projects, drive forward major cultural change and enhance Hillingdon's reputation. The programme is led by the Leader of the Council, and the Chief Executive and Corporate Director for Administration is the programme director. Cabinet members and directors are also responsible for specific HIP projects.
- 14 **The Business Improvement Delivery (BID)** programme is a key part of HIP and has been designed to fundamentally transform the way the Council operates. Through the programme, savings of £17.1 million were delivered in 2013-14 taking total savings over the last four years to over £70 million. The BID programme delivery and expenditure is overseen by the Leader of the Council, and the Deputy Chief Executive and Corporate Director of Residents Services.
- 15 **The Medium Term Financial Forecast (MTFF)** process is the system of service, financial and annual budget planning. This runs from the preceding March to February with a robust challenge process involving Members and Corporate Directors. Monthly reports on key financial health indicators are produced and communicated through the finance management team.
- 16 **Hillingdon Partners** aims to bring together the local public, private, voluntary and community sector organisations to improve the quality of life for all those who live in, work in and visit

Hillingdon. The Partnership works to promote the interests of Hillingdon beyond the borough's boundaries with external organisations, regional bodies and central government. The Partnership has agreed 10 priority areas for the focus of its work, with actions to address local priorities delivered through five theme groups.

- 17 **A Joint Strategic Needs Assessment (JSNA)** outlines the current and future health and wellbeing needs of the population over the short-term (three to five years) and informs service planning, commissioning strategies and links to strategic plans such as the Health and Wellbeing Strategy. Following a redesign of the JSNA in 2011, further work has been undertaken to maintain the content through 2013. The JSNA is 'live' and can be accessed via the Council's website and as such is updated throughout the year rather than refreshed annually.
- 18 **An Independently Chaired Audit Committee** operates to oversee the financial reporting, provide scrutiny of the financial and non-financial systems, and provide assurance on the effectiveness of risk management procedures and the control environment. The Audit Committee has been set up with terms of reference generally consistent with CIPFA's 'Audit Committees – Practical Guidance for Local Authorities 2005'. Internal audit carried a review of the effectiveness of the Audit Committee in 2013/14 and identified some inconsistencies between the current arrangements and the CIPFA recommended best practice.
- 19 The **Performance Management Framework** is a Council-wide framework requiring service areas and teams to set annual team plans, targets, identify risk and report performance against Council priorities. Performance is monitored on a regular basis through a combination of reporting against service targets and performance scorecards, the results of which are regularly presented to Senior Management Teams and reported quarterly to the Corporate Management Team.
- 20 The London Borough of Hillingdon has established an effective **risk management system**, including:
  - **A corporate risk management framework** outlining the, roles, responsibilities and processes for capturing, reporting and taking action to mitigate key corporate and directorate risks. Directorate and corporate risk registers enable the identification, quantification and management of risks to delivering the Council's objectives. Group risk registers are regularly updated, reviewed by each Senior Management Team and the most significant risks are elevated to the Corporate Risk Register. The framework is reviewed annually. During 2013/14 Internal Audit highlighted a number of areas for further improvement.
  - **A Corporate Risk Management Group (CRMG)**, chaired by the Corporate Director of Finance, reviews the risk registers on a quarterly basis and advises the Cabinet and Corporate Management Team on the significant risks. Twice annually, the risk reporting arrangements are reported to the Audit Committee. Where appropriate, the Medium Term Financial Forecast (MTFF) embraces the potential financial impact of significant risks.
  - **Risk management training** is provided when required. An e-learning training package is in place and accessible for all staff and will form part of the induction programme for key new staff.
- 21 The Council acknowledges that there is a need for robust and effective risk management processes and procedures that will help to mitigate against the potential increases in **insurance costs** as a result of the hardening of the insurance market.
- 22 **Occupational Health and Safety Services** provide advice and support to the Corporate Safety Forum, Group Health and Safety Advisors and managers regarding health and safety issues. The Corporate Safety Forum assists in ensuring a consistent approach to health and safety management is adopted throughout the Council. It reviews health and safety



performance across the Council and discusses matters of topical and strategic interest that have corporate health and safety consequences.

- 23 A Council-wide officer group, the **Hillingdon Information Assurance Group (HIAG)**, chaired by the Senior Information Risk Owner on behalf of the Corporate Management team, meets every two months to review progress on the agreed information governance work plan. Policies, procedures and guidelines for staff are updated regularly, mandatory data protection training has been rolled out to all staff, briefings have been delivered to Elected Members and where identified, learning from cases has been implemented.
- 24 The London Borough of Hillingdon has an **Anti-Fraud and Anti-Corruption Strategy** approved by Cabinet and communicated to all staff. It is underpinned by and refers to the full range of policies and procedures supporting corporate governance arrangements such as Codes of Conduct, Standing Orders, Register of interests and whistle-blowing. Following an Internal Audit review of the Council's Corporate Anti-Fraud and Anti-Corruption arrangements it was identified, along with other areas of concern, that the strategy and some of the supporting policies needed updating in light of changes in the Council's organisational structure (see 5.12).
- 25 **The Committee Standing Orders** (Part 4B), Procurement & Contract Standing Orders (Part 4H) & Scheme of Delegation to Officers (Part 3) are incorporated in the Constitution and reviewed annually. The Scheme of Delegation specific to each directorate is available on the Hillingdon's internal web pages.
- 26 The London Borough of Hillingdon **monitors legislative changes** consider implications and opportunities and ensure that the authority is substantially compliant with laws and regulations. The Policy Team leads on briefing the Corporate Management Team on upcoming changes and agreeing actions, reporting to Cabinet on specific issues as required. Legal Services review Member and Cabinet decisions for legal compliance.
- 27 **Hillingdon's training and development programme** enables staff and senior officers to access and complete a wide range of learning and development opportunities through the internal Learning & Development pages on 'Horizon' to ensure they have the skills, knowledge & behaviours to deliver the Council's priorities. This includes induction programmes, e-learning packages and a range of vocational development courses under the Qualifications and Credit Framework. In addition, the Hillingdon Academy is now well established as a leadership programme aimed at providing the Council's future leaders. The Council also offers staff the opportunity to achieve professional qualifications and meet their continuing professional development (CPD) requirements.
- 28 The **Performance and Development Appraisal (PADA)** process requires all officers and senior managers, to record employee's key objectives and tasks, set targets for when these must be delivered and identify staff learning and development needs. There are competency frameworks for staff, managers, senior officers and Directors, with descriptors outlining the performance that is expected at each level. Performance reviews are completed on a bi-annual basis against the relevant competency framework and PADA guidance is available to support both staff and managers through the process.
- 29 Hillingdon has a set of **consultation/engagement standards** that demonstrate a commitment for building strong relationships with residents, visitors and businesses throughout the borough. The standards set out Hillingdon's commitment to engage, consult and respond to the views of local communities. The standards also support Hillingdon's commitment to transparency and the need for sharing information with residents. Resident and stakeholder feedback supports and informs corporate intelligence, which drives business planning, policy and decision making including commissioning and procurement of services. An annual customer engagement plan is in place covering all Council services to align customer engagement to support the delivery of Council priorities

- 30 **Hillingdon's Pride of Place** initiative encourages residents to contribute their ideas on neighbourhood improvements so that they can feel PROUD to live in Hillingdon. The aim is to raise civic pride by showing how residents can make a real difference and contribute directly to a range of activities and specific projects to improve their local area. The initiative brings together other successful programmes such as 'Street Champions' and 'Chrysalis', and gives residents the opportunity to meet informally with their ward councillors and discuss improvements directly with Council officers through a variety of community engagement events across the borough.
- 31 The Council has in place a well-established **Petition Scheme**, including e-Petitions. This is widely used by people in the borough to submit their views on local matters directly to decision-makers. The scheme was reviewed and revised by the Council in May 2013.

#### 4 **Review of Effectiveness**

The London Borough of Hillingdon has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of executive managers within the authority who have responsibility for the development and maintenance of the governance environment, the Head of Internal Audit's annual report, and also by comments made by the external auditors and other review agencies and inspectorates.

Overall the review of effectiveness concluded that internal control systems have been in place for the financial year ended 31 March 2014 and, except for the internal control issues detailed in section 5, management and control systems are operating effectively in accordance with good practice.

The review has been informed by a range of management information and improvement action, including:

- 1 A comprehensive annual programme of scrutiny and review by the Policy Overview and Scrutiny Committees and the Audit Committee.
- 2 The role and responsibilities of the Corporate Director of Finance, detailed in the Finance scheme of Delegations. As a key member of the Corporate Management Team leadership, his role is to act as and exercise the functions of the "Chief Finance Officer" meaning the officer designated under section 151 of the Local Government Act 1972. As such he is actively involved in all material business decisions to safeguard public money and sound financial management on behalf of the authority.
- 3 The work of the external auditors as reported in their annual audit letter.
- 4 The work of Internal Audit service, which develops its annual work plan after an assessment of risk. The Head of Audit reported regularly during the year to both the Corporate Management Team and the Audit Committee and has provided a reasonable level of assurance on the internal control environment in 2013-14.
- 5 The internal control assurance statement template was updated for the 2013-14 review. The template provides more detail on the assurances required and the evidence to support them. Statements were received from all Deputy Directors and Heads of Service covering the financial year 2013-14. Statements provide confirmation that the control environment is operating effectively to safeguard the delivery of services and that any significant control issues have been raised and are being dealt with appropriately.
- 6 The London Borough of Hillingdon has continued to maintain effective financial management throughout the financial year, with unallocated reserves increasing to £35.9 million by 31 March 2013.

- 7 The London Borough of Hillingdon has a clear commitment to a capable and fit for purpose procurement function. Working to a Category Management approach, Procurement ensures a best value approach to expenditure commitment. By engaging with directorates, Procurement supports the delivery of financial and service level requirements to meet the wider corporate objectives with a 'Resident First' approach. It is recognised that through the Category Management approach, contact management and monitoring has improved. Relationships have also improved between Procurement, Legal Services and Service areas.

## 5 Significant Governance Issues

The London Borough of Hillingdon has implemented a range of improvement actions, as part of its overall continuous improvement programme, to strengthen governance arrangements and control systems. Through the Council's BID programme, current ways of working are being rigorously challenged and tested against processes and procedures applied in the business world, which is unusual for Local Government. This has meant that Hillingdon's approach has identified issues and, therefore, improvements that other Local Authorities may not.

All internal control issues reported in the 2011-12 AGS have been resolved, except that:

1. Following historical weaknesses in the monitoring and control of some construction projects, new processes and procedures, including 'Gateway Sign Off's' have been implemented across all Asset Management functions, including Housing and Facilities Management. Further work is underway to bring together all property, construction and maintenance functions in a consistent and coherent way.

All internal control issues reported in the 2012-13 AGS have been resolved, except that:

2. Significant progress has been made through the Tenancy Sustainment and Housing BID programmes in reviewing and reshaping Housing Services. Further work is underway to enhance operational processes and procedures to reflect new ways of working, ensure effective contract management and create a strong corporate, joined up approach. Closer working relationships between Housing and other corporate services areas, for example Procurement, are ensuring that issues, once identified, are addressed and resolved in a more timely manner.

Following a review of the effectiveness of the system of internal control, the following governance issues have been identified in 2013-14:

3. A lack of direct Local Authority control over the recruitment process for school staff means that assurance in this area is significantly lacking. This has given some cause for concern during 2013-14. Internal Audit are working on a themed audit to identify ways to improve control and governance. Recommendations will be picked up through the Local Authority Designated Officer offering support to schools through their safeguarding work.
4. Following an Internal Audit Review in 2013-14, a lack of understanding amongst staff about the importance of declaring financial and non-financial interests was highlighted. There are key service areas that are more at risk of conflicting interests for example where a contract or supplier relationship is in place. A review is being completed of a number of employee related codes and guidance in the constitution as recommended by Audit. These include the guidance on declaring interests, gifts and hospitality and also Member/ Officer protocol and Officer Code of Conduct.
5. In November and December 2013 Ofsted conducted an inspection of services for children in need of help and protection, children looked after and care leavers. The Services were judged by Ofsted as 'require improving'.

The inspection found many strengths including the visible and committed leadership from the Leader of the Council, the Deputy Leader of the Council and senior officers to transform services; recognition that the new ways of working being implemented was the right model; the council is working well with partners to keep children safe; a strong commitment to improve the lives of children looked after; a good adoption service; and effective support for children who leave care.

The council needs to ensure consistency in practice, including assessments, care planning and reviews; establish strong management oversight and performance management of case work; and embed a sustainable approach to improvement, including the recruitment and retention of a high calibre workforce.

In response to the inspection findings, the Director of Children and Young People's services has established an action plan to achieve a 'good' Ofsted grade by addressing the 11 issues identified by Ofsted. Lead officers have been identified for all areas, and progress and targets are monitored by the Director every two weeks. Performance reports and the findings from practice audits are reviewed to measure what difference the action plan is making. The action plan and progress has been reported to the Leader of the Council and Ofsted.

6. Following an Internal Audit review which was published in May 2014, a number of control issues were identified with regards the data reporting and accuracy of housing rent arrears during 2013-14. Significant delays were also highlighted in the setting up of some rent accounts. Management action is in place to address the issues and Internal Audit are following up on its implementation.

7. An Internal Audit Assurance Report for Looked After Children Placed out of Borough highlighted some issues in the areas of management of care plans, specifically:

- The timeliness of approving plans and scanning documents into Civica
- The review of exception reports in Protocol ICS

Both these issues have been resolved by the Service Teams working closer with ICT and the Performance and Intelligence team and improvements in management practices.

8. Effective information governance remains a high priority for the local authority, however there have been some Data Protection breaches during 2013-14, which have been quickly identified and addressed in line with expected procedures. During 2014/15 all staff will be undertaking refresher data protection training to ensure standards in information governance remain high and key policies and guidelines will be reviewed.

9. An incident occurred in the Payments Team, whereby a member of the team used the bank details provided on the AP02 payment form rather than independently verifying the payees bank details. This meant that two payments to a landlord were issued to an incorrect payee. The Council recovered the money in full but a full review of the process was undertaken with Strategic Finance and more stringent controls have now been implemented including a new AP02 form.

10. The legislation outlining the responsibility for provision of post 19 education places for students with Learning Disabilities changed during 2012-13 with responsibility passing from the Education Funding Agency to Local Authorities. A stage 3 complaint during 2013-14 highlighted a need for greater clarity around Hillingdon's process and control for dealing with the changes. A policy is now in place and responsibility lies within the all-age disability pathway programme.

11. The need to continually review and transform services to drive improvements and efficiencies continues under the government's austerity measures. Hillingdon's successful BID programme has delivered significant savings to date and will be applied further over coming years. There is a need therefore to constantly review and update policies and procedures to take account of changes, for example in the areas of roles and responsibilities, scheme of delegations, succession plans and structure charts.

12. An Internal Audit Assurance Report on the Council's Corporate Anti-Fraud and Anti-Corruption arrangements identified a number of areas requiring improvement, detailed in paragraphs 3.11 and 3.24. Positive action has been proposed by senior management and progress is under way to strengthen the Council's arrangements in this area.



Fran Beasley  
Chief Executive  
10 September 2014



Cllr Ray Puddifoot MBE  
Leader of the Council  
10 September 2014

## Glossary of Terms

**ACCRUAL** - A sum included in the final accounts to cover income or expenditure attributable to an accounting period for goods received or work done, but for which payment has not been received/made by the end of the period.

**ACCUMULATED ABSENCES ACCOUNT** - Absorbs the differences arising from the statutory requirement to neutralise the impact on the General Fund Balance of accruing for compensated absences earned but not taken in year.

**ACTUARIAL VALUATION** - A valuation of assets held, an estimate of the present value of benefits to be paid, and an estimate of required future contributions, by an actuary, on behalf of a pension fund.

**ACTUARY** - An independent professional who advises on the financial position of the pension fund.

**AGENCY SERVICES** - The provision of services by one body (the agent) on behalf of another that is legally responsible for providing the service.

**AMORTISED COST** - The initial measurement will be at fair value, normally the amount of the originating transaction such as the receipt or loan advance less transaction costs. The effective interest rate is then calculated to the amount in the balance sheet at initial measurement. The result in the balance sheet carrying amount (the amortised cost) and a profile of interest charges that might be different from the amounts specified in the contract as being for interest and principal.

**ASSET** - Something that will be used by the authority over a long period of time and has a lasting value (e.g. land, buildings, and roads). See also **COMMUNITY ASSETS, NON CURRENT ASSET, INFRASTRUCTURE ASSETS, ASSETS HELD FOR SALE, NON-OPERATIONAL** and **OPERATIONAL ASSETS**.

**ASSETS HELD FOR SALE** - Assets that are being actively marketed for sale and are expected to be sold within the next financial year.

**BAD DEBT PROVISION** - Amounts set-aside in the accounts towards potentially irrecoverable debts. This amount is netted against Debtors in the Consolidated Balance Sheet.

**BALANCES** - Unallocated reserves held to resource unpredictable expenditure demands.

**BUDGET** - A statement of the authority's plans for services expressed in money shown over one or a number of years.

**CAPITAL ADJUSTMENT ACCOUNT** - The Capital Adjustment Account represents the balance of capital resources set aside to finance capital expenditure awaiting the consumption of those resources (i.e. depreciation or impairment).

**CAPITAL CHARGE** - A charge to service revenue accounts to reflect the cost of fixed assets used in the provision of services.

**CAPITAL EXPENDITURE** - Spending on assets (e.g. land, buildings, roads etc.) that adds to and not merely maintains the value of an existing fixed asset.

**CAPITAL RECEIPTS** - The proceeds from the sale of land, buildings or other assets. Capital receipts can be used to pay for new capital expenditure, within rules set down by the Government, or to repay outstanding loans.

**CASH EQUIVALENT** - Amounts held as short term deposits which are readily convertible into cash.

**CIPFA** - The Chartered Institute of Public Finance and Accountancy is the professional accounting body that specialises in the public services.

**COMMUNITY ASSETS** - Assets that the local authority intends to hold in perpetuity, that have no determinable useful life, and that may have restrictions on their disposal. Examples of community assets are parks and historic buildings.

**CONTINGENCY** - Money set aside in the budget to meet the cost of unforeseen items of expenditure, or shortfalls in income.

**CONTINGENT ASSET** - A contingent asset is a possible asset arising from past events whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the Council's control.

**CONTINGENT LIABILITY** - A contingent liability is either:

a) a possible obligation arising from past events whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the authority's control; or

b) past events where it is not probable that a transfer of economic benefits will be required or the amount of the obligation cannot be measured with sufficient reliability.

**CORPORATE AND DEMOCRATIC CORE** - The corporate and democratic core comprises all activities that local authorities engage in specifically because they are elected, multi purpose authorities with a responsibility for making choices in the use of taxpayers' money. The cost of the activities are thus over and above those which would be incurred by a series of independent, single purpose, nominated bodies managing the same services. There is therefore no logical basis for apportioning these costs to services.

**COUNCIL TAX** - The local tax based on relative market values of residential property, which helps to fund local services.

**CREDITORS / PAYABLES** - Amounts owed by the authority for goods and services received where payment has not been made at the date of the balance sheet.

**CREDIT RISK** - Risk that other parties might fail to pay amounts due to the council

**CURRENT ASSET** - An asset held, which will be consumed or cease to have value within the next financial year; examples are stocks and debtors.

**CURRENT LIABILITY** - An amount which will become payable or could be called in within the next accounting period; examples are creditors and cash overdrawn.

**CURRENT SERVICE COST** - The increase in the present value of Pension Fund Liabilities expected to arise from current year service.

**DEBTORS / RECEIVABLES** - Amounts owed to the authority for goods and services provided but not received at the date of the balance sheet.

**DEDICATED SCHOOLS GRANT** - A specific grant for the funding of schools and which is ring fenced to the Schools Budget.

**DEPRECIATION** - The measure of the wearing out, consumption, or other reduction in the useful economic life of a fixed asset, whether arising from use, passage of time or obsolescence through technological or other changes.

**DIRECT REVENUE FINANCING (revenue contributions to capital)** - Resources provided from the authority's revenue budget to finance the cost of capital projects.

**DISTRICT AUDITOR** - An auditor employed directly by the Audit Commission to audit the accounts of local authorities.

**EARMARKED RESERVES** - Amounts set aside for a specific purpose or a particular service or type of expenditure.

**EFFECTIVE INTEREST RATE** - The rate of interest that will discount the estimated cash flows that take place over the life of the instrument.

**EMOLUMENTS** - All sums paid to or receivable by an employee and sums due by way of expenses allowances (as far as those sums are chargeable to UK income tax) and the money value of any other benefits received other than in cash. Pension contributions payable by either employer or employee are excluded.

**EXCEPTIONAL ITEMS** - Material items that fall within the ordinary activities of the Council that need to be disclosed in order to present the accounts fairly.

**EXTRAORDINARY ITEMS** - Material items, possessing a high degree of abnormality, which derive from events or transactions that fall outside the ordinary activities of the authority and which are not expected to recur.

**FAIR VALUE** - the price at which an asset could be exchanged in an arm's length transaction less, where applicable, any grants receivable towards the purchase or use of the asset.

**FEES AND CHARGES** - Income raised by charging users of services.

**FINANCE LEASE** - A method of paying for capital expenditure where a rent is paid for an asset during its useful life. Finance Leases are treated as capital. See **OPERATING LEASE**.

**FINANCIAL YEAR** - The period covered by a set of financial accounts - the local authority financial year commences 1 April and finishes 31 March the following year.

**GENERAL RESERVE** - amounts remaining unspent on revenue account after taking account of all expenditure and income for the year. The General Reserve is required to enable the Council to meet potential business risks in the future so that services will not be affected financially should unexpected events occur.

**GOING CONCERN** - The concept that an entity will remain in operational existence for the foreseeable future, in particular that the revenue accounts and balance sheet assumes no intention to curtail significantly the scale of operations.

**GOVERNMENT GRANTS** - Assistance by government and inter-government agencies and similar bodies, whether local, national or international, in the form of cash or transfers of



assets to an authority in return for past or future compliance with certain conditions relating to the activities of the authority.

**GROSS EXPENDITURE** - The total cost of providing the Council's services before taking into account income from government grants and fees and charges for services.

**IMPAIRMENT** - A reduction in the value of a fixed asset below its previously assessed value in the balance sheet.

**INCOME** - Amounts due that has been or is expected to be received.

**INFRASTRUCTURE ASSETS** - Fixed assets that have no alternative use and are intended to be held in perpetuity. Examples of infrastructure assets are highways and footpaths.

**INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)** - Statutory guidelines by which the accounts have to be prepared, implemented for the first time in the 2010/11 accounts.

**INVENTORIES** - The amount of unused or unconsumed stocks held in expectation for future use.

**INVESTMENT PROPERTIES** - Assets held solely for capital appreciation or to earn rental and not to meet service objectives.

**INVESTMENTS** - Short-term investments are those maturing within one year if the balance sheet date, any investments maturing more than one year after the balance sheet date are treated as long-term investments.

**LOANS AND RECEIVABLES** - Financial assets (excluding derivatives) that have fixed or determinate payments and that are not quoted in any in any active market. Loans and receivables are carried at amortised cost. The income and expenditure account is charged with interest receivable, impairment losses and any gain or loss on "de-recognition". Movements in fair value during the life of the asset are not recognised.

**LIABILITIES** - Money owed to individuals or organisations that will be paid at some time in the future.

**LIQUIDITY RISK** - The risk that the council might not have funds available to meet its commitments to make payments.

**MARKET RISK** - The risk that the council will loss out financially as a result in market factors such as interest rates or stock market movements.

**MINIMUM REVENUE PROVISION - (MRP)** - The minimum amount, which must be charged each year to an authority's revenue account to set aside funds to repay the principal sum of borrowing for capital purposes.

**NATIONAL NON-DOMESTIC RATE (NNDR)** - A levy on businesses based on a national rate in the pound multiplied by the ratable value of the premises occupied. NNDR is redistributed among all local authorities and police authorities on the basis of population.

**NET BOOK VALUE** - The amount at which fixed assets are included in the balance sheet, i.e. their historical cost or current value less the cumulative amounts provided for depreciation.

**NET EXPENDITURE** - Gross expenditure less specific service income but before deduction of revenue support grant.

**NET CURRENT REPLACEMENT COST** - The cost of replacing or recreating the particular asset in its existing condition and in its existing use, i.e. the cost of its replacement or of the nearest equivalent asset, adjusted to reflect the current condition of the existing asset.

**NET REALISABLE VALUE** - The open market value of the asset in its existing use (open market value in the case of non-operational assets), or sale proceeds for stocks and stores less the expenses to be incurred in realising the asset.

**NON-CURRENT ASSET** - An asset that has value beyond one financial year.

**NON-DISTRIBUTABLE COST** - These include overheads for which no user now benefits and should not be apportioned to services. Examples are spare computer capacity and empty offices. These also include pension costs in relation to scheme members' past service.

**NON-OPERATIONAL ASSETS** - Non Current assets held by a local authority not directly occupied, used or consumed in the delivery of services. Examples of non-operational assets are investment properties, assets under construction and assets that are surplus to requirements, pending sale or redevelopment.

**OPERATIONAL ASSETS** - Non Current Assets held, occupied, used or contracted to be used on behalf of the authority or consumed by an authority in the direct delivery of the services for which it has a responsibility, whether statutory or discretionary or for the service or strategic objectives of the authority.

**OPERATING LEASE** - A lease under which the asset can never become the property of the lessee.

**OUTTURN** - Actual income and expenditure for a financial year.

**PAST SERVICE COST** - The increase in present value of Pension Fund liabilities arising in the current year from previous years' service.

**PENSION FUND** - The Fund for staff in the Local Government Pension Scheme, maintained on an actuarial basis, which makes pension payments on retirement of participants; it is financed by contributions from the employer and employees and from investment income.

**PENSION INTEREST COSTS** - Expected increases in present value of Pension Fund liabilities because benefits are due one year sooner.

**POST BALANCE SHEET EVENTS** - Those events, both favorable and unfavorable, which occur between the balance sheet date and the date on which the Director of Finance signs the Statement of Accounts.

**PRECEPT** - The charge made by one authority on another to finance its net expenditure.

**PRIOR YEAR ADJUSTMENTS** - Material adjustments applicable to prior years arising from changes in accounting policies or to correct errors.

**PRIVATE FINANCE INITIATIVE (PFI)** - A central government initiative that aims to increase the level of funding available for public services by attracting private involvement. The Council has one such scheme relating to the provision of Barnhill School. The school has

been developed and its ancillary services are provided by a private-company with which the Council has a long-term contract.

**PROVISION FOR DISCOUNT AND PREMIUMS ON LOAN REDEMPTION** - A provision to spread over an appropriate period discounts received and premiums paid when loans from the Public Works Loan Board are prematurely repaid.

**PROVISION** - An amount, set-aside in the accounts, for liabilities that have to be met but where timing is uncertain.

**PRUDENCE** - The concept that revenue is not anticipated but is recognised only when realised in the form of cash or other assets and full and proper allowance is made for all known and foreseeable losses and liabilities.

**PUBLIC WORKS LOAN BOARD (PWLB)** - A government agency that provides long term and medium term loans to local authorities at interest rates only slightly higher than those at which the government itself can borrow.

**RELATED PARTY** - Relationships between a senior officer or elected member or their families with another body that has, or might develop, a business relationship with the Council.

**RESERVES** - Money set aside by the authorities to meet particular expenditure in future years, which do not fall within the definition of provisions.

**REVALUATION RESERVE** - a new account opened on 1<sup>st</sup> April 2007 that records all accumulated gains from fixed assets held by the authority offset by that part of depreciation relating to the revaluation.

**REVENUE EXPENDITURE** - The day-to-day running costs incurred by an authority in providing services, for example payment of salaries to employees or purchase of materials.

**REVENUE EXPENDITURE FUNDED FROM CAPITAL UNDER STATUTE** - A charge arising from capital expenditure but where there is no tangible asset. An example is grants given for private property improvement. The Council is permitted to borrow for such expenditure

**REVENUE SUPPORT GRANT** - A grant paid by central government to aid local authority services in general, as opposed to specific grants, which may only be used for a specific purpose.

**SERCOP** - Service Reporting Code of Practice

**SOLACE** - Society of Local Authority Chief Executives

**SPECIFIC GRANTS** - These are grants paid by various government departments outside the main formula. They include ring-fenced grants and specific formula grants.

**SURPLUS ASSETS** - Assets which are no longer in use by the Authority but which are not being actively marketed and are not expected to be sold within the next financial year.

**TAXBASE** - The number of Band D equivalent properties in a local authority's area. An authority's tax base is taken into account when it calculates its council tax, and when central government calculates entitlement to Formula Grant.

**TRANSFER VALUE** - A payment one superannuation fund makes to another when a member changes employment.

**TRUST FUNDS** - Money held in trust by the Council for a specified purpose.

**USABLE RESERVES** - Balances held by the Council which can be used to meet service expenditure.

**UNUSABLE RESERVES** - Balances held by the Council which cannot be used to meet service expenditure

**USEFUL LIFE** - The period over which the local authority will derive benefits from the use of a fixed asset.

**VIREMENT** - The permission to spend more on one budget head when this is matched by a corresponding reduction on some other budget head, i.e. an authorised switch of resources between budget heads.

**WORKS IN PROGRESS** - Cost of work done on an uncompleted project at the balance sheet date.

**YIELD** - The amount of cash (in percent terms) of the return on investing activities